

## Corporate Responsibility Report 2006

**£677m**

lent to small businesses in the UK's most deprived communities



**24%**

reduction in global fraud losses



**74%**

of UK and Ireland energy purchased from renewable sources

**1m**

school children have taken part in Face2Face with Finance lessons

Responsible, sustainable business management is ultimately delivered by the actions of all of the people that work in the organisation, through all of the decisions that they make, every day. Having the right governance and management structures in place and clear leadership from the top sets the tone and framework against which this happens.

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About this Report

Our Annual Report sets out our financial results. This Corporate Responsibility (CR) Report explains how we ensure we are delivering these results in a responsible and sustainable way. It provides a snapshot of our activity in the 2006 calendar year, with some additional material from early 2007.

The Report highlights the issues that matter most to our wide stakeholder base and explains the importance we place on them and how we manage these issues. It does not attempt to provide a full update on all of the work we do across all of our businesses to manage our impact on society and the environment. More information can be found online at [www.rbs.com/cr](http://www.rbs.com/cr). Our reporting, within this Report and online, meets the content and quality requirements of G3 Application Level B+ of the Global Reporting Initiative (GRI). In addition we have sought to cover the principles of the UN Global Compact.

Deloitte & Touche LLP has again been appointed to provide the corporate responsibility assurance statement. The subject matter reviewed is the same as 2005, but we have deepened further the scope within certain business units. We have also included findings from stakeholder qualitative research undertaken during 2006.

We provide information on a Group-wide basis where appropriate and relevant: the scope of the information is clearly indicated throughout. In the text of the Report, all references to 'the RBS group' or 'the Group' mean the Group as a whole. 'The Royal Bank of Scotland' refers to The Royal Bank of Scotland retail banking division.

Chairman's Introduction



I have now completed a year as Chairman of the RBS group, which I have enjoyed enormously. I came to the Group with a well-established interest in the importance of managing businesses sustainably for the long term and in protecting and enhancing the Group's reputation. I was therefore very interested to see how RBS approached corporate responsibility and have spent some time in the past year exploring where we are.

I have been impressed with all that I have seen, especially our progress during the year. Responsible, sustainable business management is ultimately delivered by the actions of all of the people that work in the organisation, through all of the decisions that they make, every day. Having the right governance and management structures in place is essential and clear leadership from the top sets the tone and framework against which this happens. I have therefore been delighted to find firm commitment from the very top of our organisation.

Our Group Chief Executive, Sir Fred Goodwin, has responsibility for corporate responsibility matters on the Group Executive Management Committee (GEMC) and Board, formally reporting twice a year. Our Corporate Responsibility Department supports the Group's business divisions in managing the key issues, principally through the members of the Corporate Responsibility Working Group.

I am well aware that alongside our successes, our sector has its fair share of challenges too. We will continue to play our part as a leading global bank in addressing these. We have a full programme of activities in motion, as you will see in reading this Report. I am confident that our reputation as a responsibly managed company is absolutely justified and have no doubt that our ongoing activity in this area will ensure it stays that way.

*Tom McKillop*

**Sir Tom McKillop**  
Chairman



2006 has been a good year for the RBS group, resulting in a 10% rise in our income and a 14% rise in our operating profit to £9,414 million. Understanding and successfully balancing the views of all our stakeholders on the issues that matter to them most, for our mutual benefit, is critical to our sustainable success.



## Group Chief Executive's Statement

2006 was another good year for the RBS group. We have continued to build on our strengths across the businesses resulting in a 10% rise in our income and a 14% rise in our operating profit to £9,414 million. These results have been achieved first and foremost by ensuring everyone working for the Group continually focuses on the needs of our customers. But we must also successfully balance the views of all our stakeholders. That means understanding the issues that matter to them most and addressing them coherently to deliver sustainable success.

The benefits of our success stretch far outside the company itself. Our dividend has increased by 127% since 2001 to £2.7bn in 2006, which benefits some 20 million people, many of whom are pensioners. In 2006 we continued to be the largest corporate taxpayer in the UK, paying £2.9bn to the UK exchequer, supporting the Government in the provision of public services such as schools, hospitals and state pensions. We employed more than 140,000 people worldwide, paying £6.7bn in salaries, and paid our suppliers a record £7.5bn.

We also continued to make good progress in our corporate responsibility performance during the year. We extended our research and consultation with our stakeholders to help us build a more complete picture of the issues which matter most to them and enabling us to focus our time and energy most effectively. This Report is structured to reflect our progress in each of these areas.

The Group has the largest branch network in the UK and invested more in our customer support infrastructure than the total profits of our UK high street banking. Our

customers continue to rank RBS Consumer Banking Number 1 for customer service in the UK, with NatWest closely following in second place. We provide the largest free ATM network in the UK, accounting for one in five of the total. In the past three years we have supplied over half of all additional free ATMs, focusing especially on rural and deprived areas.

In 2006 we opened more than 200,000 basic bank accounts in the UK, all available through both our branches and the UK Post Office network. Citizens Financial Group opened more than 600,000 basic checking accounts in the USA. And we increased our small business lending to the UK's 5% most deprived wards to £677m, giving us an estimated leading market share of 39%.

We run the UK's largest and best established financial education programme, Face2Face with Finance, originally launched in 1994. In 2006, 450,000 school children were educated in 1,400 schools, bringing the total to over one million since the programme's re-launch in 2004. In 2006, we extended our financial education in schools through the launch of 'School Money'. This programme enables pupils to set up banks in schools to encourage school children to save money.

We continue to fight financial crime, exceeding the industry norm on a range of indicators. Our global fraud losses reduced by 24%, our Internet fraud losses by 14% against an industry increase of 46%, and our plastic fraud losses by a further 5%, which was 3% ahead of our sector.

Mindful of the threat posed by climate change, we purchased 74% of our electricity in the UK and Ireland from renewable sources, reducing our overall footprint by

over 200,000 tonnes of CO<sub>2</sub>, and moved to recycled paper for office use. We launched a proposition for our employees in June 2007, encouraging them to play their part in minimising the Group's carbon footprint at work, as well as supporting them in minimising their own footprint at home. In 2006, we were also the lead arranger of finance for renewable energy in the world, committing \$2.6bn. We contributed to the revision of the Equator Principles and completed a global training programme for relevant employees. We also continue to support the UN Global Compact applying its principles to the relevant areas of our business.

Finally, we invested more than £1m every week in deserving causes across the UK as the largest corporate donor in our sector, and the second largest in the FTSE 100.

Most importantly, our employees continue to register their support for our organisation. In 2006, we increased the response rate for the annual ISR Employee Opinion Survey to a record 87% and, for the second successive year, outperformed the global financial services benchmark in all 15 categories.

We are all mindful that we must never stand still and, as you can see from this Report, have set ourselves challenging objectives on every issue identified by our stakeholders. We look forward to delivering against these in the year ahead.

I hope you enjoy reading this Report.

A handwritten signature in black ink, appearing to read 'Fred Goodwin'.

**Sir Fred Goodwin**  
Group Chief Executive

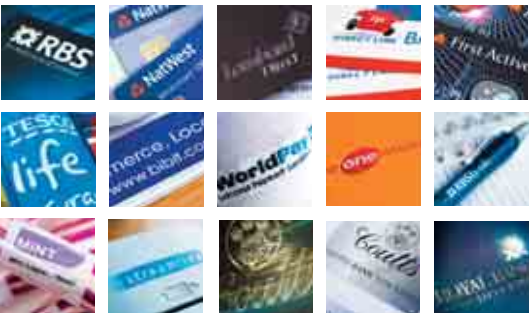
Our Business

The RBS group is one of the world's top ten financial services groups. The diversity, scale, distribution capacity and operational excellence of the Group allows us to deliver sustainable income growth, combined with controlled risk and strong returns.

Corporate Markets



Retail Markets



Ulster Bank Group



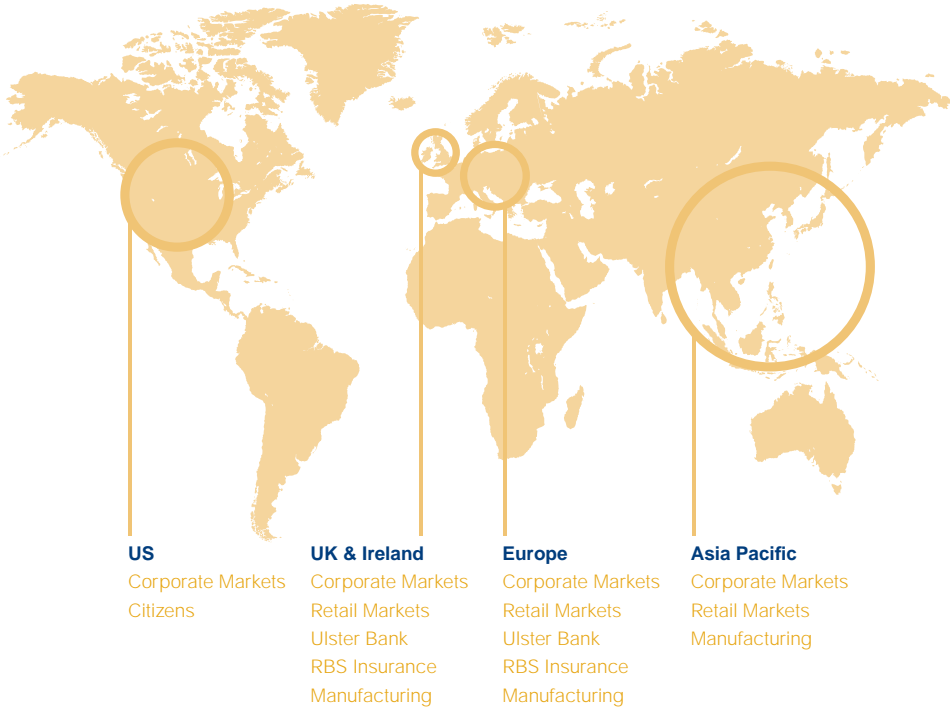
Citizens Financial Group



RBS Insurance



www.rbs.com



**Corporate Markets** incorporates Global Banking & Markets, a leading banking partner to major corporations and financial and governmental institutions, and UK Corporate Banking, the largest provider of banking, finance and risk management services to UK corporate and commercial customers.

**Retail Markets** provides a broad range of retail services across different brands and channels to our personal and small business customers. It has four distinct business areas: Consumer Banking, Business Banking and Cards & Direct Finance in the UK; and Wealth Management in the UK, continental Europe and the Asia Pacific region.

**Ulster Bank** provides a broad range of banking and other financial services for personal and corporate customers across the island of Ireland.

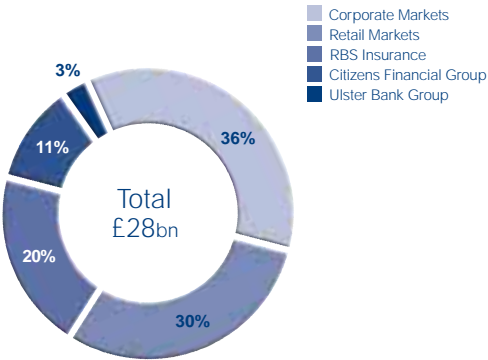
**Citizens** provides retail and corporate banking services through the Citizens and Charter One brands across 13 states in the northeastern and midwestern US, with a retail and commercial presence in more than 30 other states.

**RBS Insurance** is the second-largest general insurer in the UK and is growing its direct business in Spain, Italy and Germany. Its brands include Direct Line, Churchill, Green Flag and Privilege.

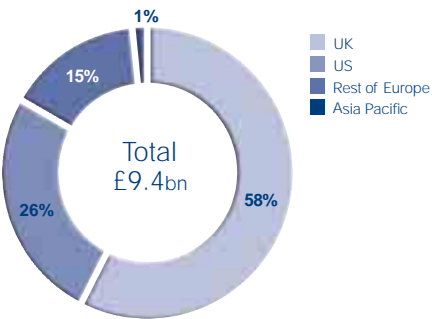
**Manufacturing** is the 'engine room' of the RBS group, supplying processing, telephony, IT, property, purchasing and security expertise to the Group's business divisions.

Our Impact

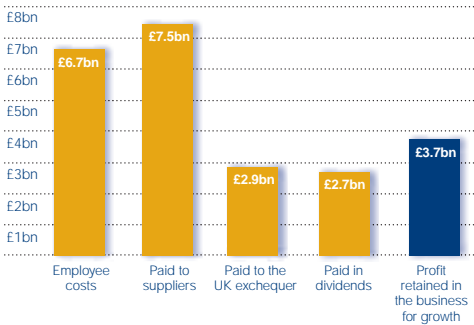
Income



Group operating profit



Economic impacts



Key Corporate Responsibility Highlights

- > RBS consumer banking ranked first in independent customer satisfaction ratings and NatWest second
- > Global fraud losses reduced by 24%
- > Increased lending to SMEs in the most deprived areas in UK to £677m
- > Worked with local communities to install 300 free-to-use ATMs in rural and deprived areas
- > Delivered Face2Face with Finance lessons to 450,000 school children in the UK
- > Opened 200,409 basic bank accounts in the UK and 612,930 basic checking accounts in the US
- > Outperformed our global peers on all 15 categories of our Employee Opinion Survey for the second successive year
- > Sourced 74% of electricity in UK and Ireland from renewable sources
- > Lead arranger of finance for renewables globally, with \$2.6 billion committed
- > Added more than 500 business relationship managers into front-line positions
- > Invested £58.6m in the community

www.rbs.com/cr



Stakeholder Research and Identification of Key Issues

In 2006 we strengthened the extent and rigour of our consultation with our stakeholders. The issues that matter most to them provide the focus for our Corporate Responsibility activities.

Background

In the last quarter of 2006 we undertook a piece of work to identify, explore and prioritise the issues that our stakeholders care about in relation to the financial services sector in general and the RBS group in particular in the UK and Republic of Ireland. This built on, refined and refreshed an earlier study conducted between October 2005 and February 2006. We wanted to capture a clearer picture of the most significant and important issues to them, so that we can best focus our efforts for the benefit of the RBS group.

Approach

The research encompassed the following stakeholder groups: customers, employees, shareholders, Government and regulators, the media and NGOs.

The study included both qualitative and quantitative research. We conducted a series of focus groups with customers and employees, working with the Group Customer & Market Insight team. We interviewed key opinion formers from the media and from relevant NGOs. We conducted a series of meetings with key SRI analysts, followed up by a short e-mail questionnaire. This primary research was supplemented with extensive desk research and a quantitative MORI survey from autumn 2006. Based on the research undertaken, we identified the issues and their relative importance on both a stakeholder and an overall basis.

Findings

Using a scoring system to create a ranked list of issues for each stakeholder group we then produced a combined list of the top issues across all stakeholders. The overall analysis and prioritisation process reflected the relative importance of each group, with our direct stakeholders given more weight than our indirect. The diagram on the next page lists the top ten. A key conclusion of this work was that these issues cover the sector as a whole, as no overall differentiation emerged between banks.

**It's not just someone smiling at you, they also have to know their products**

Personal customer groups: ABC1 40+

**Banks should be involved... some parents can't educate their kids because they don't know themselves**

Personal customer groups: C2DE 40+

Definitions

From the research, we categorised the subject areas, taking into account the way in which each of the stakeholder groups defined the various topics. This enabled us to understand in more depth our stakeholders' perceptions of the issues that relate to the financial services sector.

Summary definitions of key issue areas are provided below.

- Selling, lending and marketing: how we sell and market all financial products
- Rates and charges: how we set and communicate rates and charges
- Customer service: providing service suited to customer needs
- Financial crime and corruption: protecting financial security
- Financial inclusion and capability: access to our products and understanding them
- Employee practices: managing, developing and rewarding our people
- The environment: managing and minimising our direct environmental impact
- Project finance: managing the social and environmental impact of the projects we finance
- Supporting SMEs: providing support and encouragement to start-ups and small businesses
- Community investment: our support to the communities in which we operate

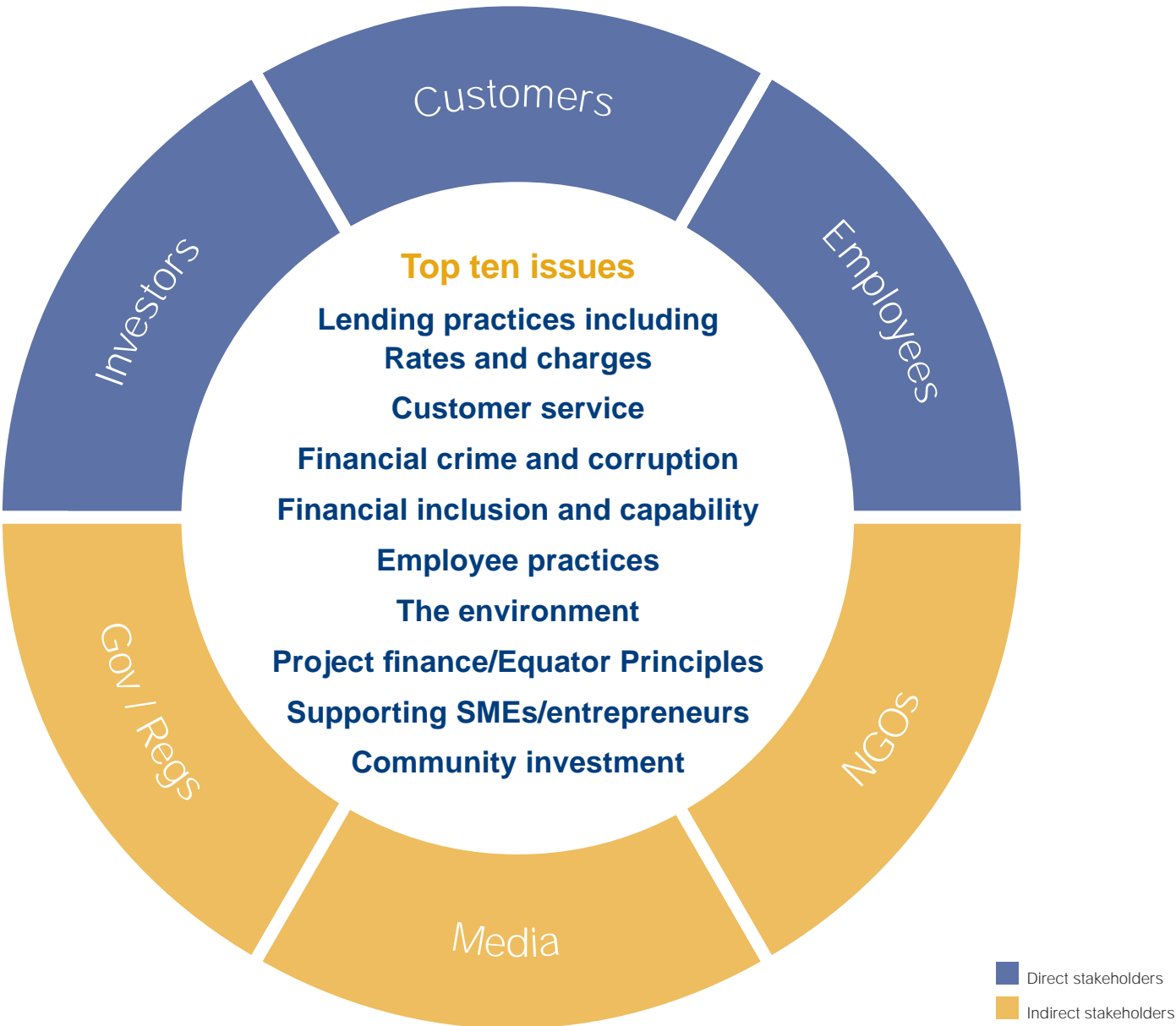
Future intentions

This work allows us to focus on the real issues associated with the overall impact of our operations on society and the environment, as perceived by our stakeholders. Key developments in each of these issue areas in 2006 and our key priorities for 2007 form the core of this Report.

**We extended our research and consultation with our stakeholders to help us build a complete picture of the issues which matter most to them. This enables us to ensure we continue to focus our time and energy most effectively for the benefit of our business.**

Sir Fred Goodwin,  
Group Chief Executive

Putting the stakeholders together



Lending Practices

It is not in our, or our customers', interests to lend more than they can afford. Making the right lending decisions centres around the objective and non-discriminatory processes which focus on establishing our customers' ability to repay their loans.



Overview

Having access to affordable credit enables people to spread payments for a financial commitment over the longer term, making it possible for them to realise ambitions such as buying a house or starting a business. When used responsibly, lending has a very positive role to play in people's lives. It was clear from our research that many of our stakeholders feel that levels of consumer debt are a major cause for concern. While they do not feel that financial services companies are solely responsible for this – seeing responsibility as split between companies, individuals, the Government and regulators – they do hold a perception that loans may sometimes be pushed through the sales process or marketed irresponsibly.

It is not in our, or our customers', interests to lend more than they can afford. Making the right lending decisions centres around the objective and non-discriminatory processes which focus on establishing our customers' ability to repay their loans. We employ a number of measures to ensure we lend responsibly, including the use of credit scoring and data from credit reference agencies, fraud and affordability checks and, where appropriate, the verification of information supplied by customers. We strive to develop the most robust decision making processes possible and embed these into our operations.

Those employees whose remuneration depends in part on meeting sales targets do not have discretionary lending authority, and incentives for customer-facing employees reward both sales and service. We make every effort to ensure that our marketing material does not mislead and is fully compliant with current legislation. The vast majority of our customers are able to manage their commitments successfully, but we try

to identify customers who get into difficulty as early as possible and have specialised teams in place to help them successfully address their financial problems. It is also important to set household debt in context. Households use debt predominantly to invest in assets and in their futures. For example, Bank of England figures show that 84% of the value of consumer debt in the UK is in residential mortgages. Of the remainder, close to half paid for higher education and cars. Credit cards accounted for 4% of outstanding debt. According to a Bank of England survey in 2006, one person in 1,000 had debt problems because credit card or loan offers were too tempting. Conversely 29% of people attributed their debt problems to overspending.

Key Developments in 2006

**Lending decisions**  
The more we know about a customer's financial status the better placed we are to make the right decision about whether or not to lend to them. Credit Reference Agencies (CRAs) hold information about an individual's credit status. During 2006, our consumer banking division began supplying and using full CRA data on all new and historical loans and mortgages, and our credit card businesses started receiving CRA data for existing customers on a monthly basis, rather than just at the point of application. Ulster Bank also uses credit references and assesses each applicant's regular financial commitments against their income. This ensures our lending decisions are based on a comprehensive view of our customers' existing commitments. In September 2006, our cards and direct finance business also committed to the Behavioural Data

**Robust processes to ensure we lend responsibly are embedded in our business. And they are working – we are a responsible lender. Industry data confirms this. Fewer of our credit card customers have fallen into arrears with their payments compared to the rest of the market.**

Sir Fred Goodwin,  
Group Chief Executive



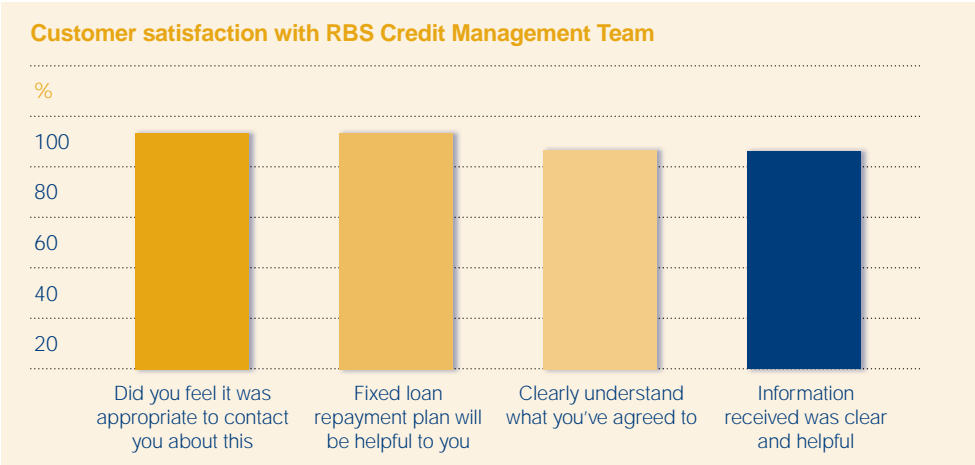
Student debt

As the leading provider of student accounts, NatWest is ideally placed to offer help to undergraduates on understanding and managing their money. In 2006, 97,000 students received our 'Guide to Student Finance' booklet which also provides details of the Face2Face website, where further help can be found. In 2007 an information pack for parents is planned, together with a dedicated student website offering guidance on dealing with student debt.

[www.rbs.com/cr](http://www.rbs.com/cr)



In October 2006, we set up a new Credit Management Team to identify and help customers in difficulty. In the first six months, 5,000 customers were helped with their finances. They credited RBS with over 84% customer satisfaction scores in all categories.



Sharing project run by APACS, the UK Payment Association, which involves sharing additional information to help identify individuals at risk of over-indebtedness.

We use a 'scorecard' system to assess an individual's level of risk on an ongoing basis. New scorecards introduced in May 2006 incorporate full CRA data and include information about a customer's credit record both internally and in the wider market. This enhances our ability to differentiate more accurately between risk levels.

Setting responsible limits to the amount a consumer can borrow on a credit card has always been the best way of managing debt levels. This is a central feature of credit assessment in our cards business. Our credit assessment procedures are robust. We are committed to industry efforts to ensure the availability of comprehensive information about a customer's overall financial status. Market data from APACS shows that a smaller share of RBS credit card customers are in arrears with their payments compared to the market.

Supporting customers in difficulty

In 2006, our cards and direct finance business set up a Credit Management Team

(CMT) with the specific remit of identifying customers in difficulty and encouraging them to take action to address their situation. Customers are given the option of transferring card debt to a loan with a fixed repayment plan. We direct customers to sources of free, independent advice, such as the Money Advice Trust, of which we are the largest corporate sponsor. We continue to monitor our customers' activity, providing additional support as necessary to help them adhere to their financial plan. We track customer satisfaction with the CMT on a monthly basis. The results for the first six months showed the levels of customer satisfaction with the service consistently exceeded 84%.

We provide customers with information and advice about debt on an ongoing basis. In 2006, RBS, NatWest and Tesco Personal Finance launched a 'Dealing with Debt' leaflet for customers. RBS, NatWest and Tesco Personal Finance also continue to support the free debt management services, Consumer Credit Counselling Service and Payplan, and refer customers in financial difficulty to both of these organisations as well as National Debtline, Citizens Advice Bureau and Advice (UK).



Encouraging savings

It's important that we encourage our customers to save money as well as ensuring that they do not borrow more than they can afford. In 2006, deposits grew faster than lending in the UK, suggesting a shift in emphasis on the part of consumers. During the first quarter of 2007 our deposits grew at a rate of 10% while the market grew by 8%. We focus on long-term savings and have a highly competitive product offering which is continually reviewed and updated.

Rates and charges

The methods of charging for banking services have been under scrutiny in the UK in recent years. In response to customer concern, RBS has reviewed the promotional materials and the terms and conditions of the relevant products to ensure that they are clear, transparent and not misleading. The Office of Fair Trading has recently announced that it is to conduct a market study into personal bank account pricing, alongside a formal investigation into the fairness of charges for unarranged borrowing. Presently, the majority of our customers do not incur unarranged overdraft fees and enjoy free 'in credit'

banking. Moreover, all of our current account customers enjoy a range of services associated with their current account for which they do not pay any fees.

There is no need for any of our customers to incur such administrative charges and customers can avoid paying these by agreeing their borrowing in advance and by keeping track of their outgoings. Customers can call us, apply online or visit any one of our branches at a time that suits them to discuss their borrowing requirements.

Another area subject to regulatory enquiry is Payment Protection Insurance (PPI), with a key theme of improving transparency of product features. Along with our regulators, we believe that PPI is an important product that can provide customers with protection in the event of unforeseen circumstances such as unemployment or ill health. We ensure that our PPI products are properly explained and appropriately sold. We conducted a review of the provision of PPI in 2006, ensuring Group-wide consistency in our approach to the products we sell both directly and through third party providers.

2007 Priorities

- Extend the usage of CRA data to validate customer-supplied information
- Extend internal data sharing
- Formalise the approach in our cards and direct finance businesses in which customers who may be in financial difficulty are identified and offered help earlier
- Increase the number of investment, pension-related and tax savings products
- Review the sales processes in all of our retail businesses to enhance the customer experience and ensure that sales incentive schemes reward customer service
- Continue to develop new products which support Government initiatives such as ISAs and Child Trust Funds
- Implement a centralised sign-off process for all product promotions to ensure that they are clear, transparent and not misleading

Customer Service

We strive to build and maintain long-term relationships with our customers that endure through changes in life stage and circumstance because they are based on mutual benefit.



Lorraine Wren works full time as a Customer Adviser at Manchester Telephone Adviser Service, helping customers with product enquiries.

Overview

We strive to build and maintain long-term relationships with our customers that endure through changes in life stage and circumstance because they are based on mutual benefit. Some people find financial products complicated and they value being able to speak to a trained adviser for help and guidance. It is important that we consistently provide our customers with easy access to a high-quality, complete service that is suited to their individual needs and ensures our products can be understood by everyone.

Our branch network is an essential component to delivering this. We have 2,276 branches in the UK, which is more than any other bank and growing. In the US, Citizens has 1,620 branches, 40 of which were newly opened in 2006. All our customers are able to telephone their local branch. We have resisted the industry trend towards overseas call centres in the interest of good customer service, and continue to operate customer service centres in the communities they serve.

Key Developments in 2006

Customer satisfaction

Customer satisfaction levels provide one of the best indicators of the strength of our relationships with our customers. In the UK in 2006 we held 300 customer discussion groups, conducted over 1,200 mystery shopping exercises and completed over 150,000 interviews with personal and small business customers to explore their perceptions of the products and services we offer. We received 650,000 responses from customers to our branch satisfaction questionnaires. RBS Consumer

Banking is consistently ranked Number 1 in independent customer satisfaction ratings, with NatWest in second place.

Ulster Bank's 'ViewsCast' system, which enables customers to give real time feedback, is used by around 300 customers every week. In the US, a continued emphasis on customer service by Citizens' retail branch network raised customer satisfaction levels by 3.5% in 2006.

We continuously use the findings from all of these surveys to improve our overall service satisfaction levels.

The ability to listen to our customers and respond to their needs is also one of the key drivers of success in our insurance businesses. In November 2006, we introduced a new system across these businesses, which enhances our claims handlers' ability to record and gather customer feedback on all aspects of our approved suppliers' performance. This feedback is now incorporated with other relevant data into a monthly report, enabling us to address specific issues as they arise. Churchill responded to consumer feedback on its Intelligent Voice Response (IVR) system, reducing and rewording the options callers are presented with. Churchill's customer satisfaction scores improved from 72% to 74%, and customer complaints to UKI were reduced by 25%. In Spain, Linea Directa found that its customers often only required motorbike cover in the spring and summer months, rather than for a full year. It therefore introduced seasonal motorbike insurance to meet this need.

Five years ago, we put down a marker we wouldn't close branches and we've stuck to that. Branches are part of the psychological contract with customers. We are consistently ranked Number 1 for customer service.

Gordon Pell,  
Chief Executive, Retail Markets



**New branches**

The Royal Bank of Scotland and NatWest have continued to extend their branch networks. When Clydesdale Bank closed its branch in New Deer, Aberdeenshire, we worked with the local community to open a Royal Bank of Scotland branch in its place.

In the US, Citizens opened 40 new branches in 2006. In the island of Ireland, Ulster Bank is the only full service bank still opening branches.

[www.rbs.com/cr](http://www.rbs.com/cr)



Serafina Crolla receives new motor insurance policy documents. This follows the successful Direct Line campaign urging ANIA, the Italian insurance regulator, to ensure all companies give their customers advanced written notification of their renewal premiums.



**Advocating on behalf of our customers**

There are times when we feel it is appropriate to take a stand for our customers. Direct Line has been lobbying on behalf of its Italian customers to improve the transparency of the motor insurance renewal process. Back in 2004, research into the Italian legislation on insurance led Direct Line to identify amendments which would enhance the competitiveness of the market and give consumers more freedom to shop around for a better deal. It therefore launched a sustained communications campaign aimed at all key stakeholders, including the government, consumer associations and regulatory bodies, demanding changes to the system. The Italian press took up the cause and the government was moved to consider Direct Line's proposals. On 8 August 2006, the rules changed, giving 35 million Italians advanced written notification of their renewal premiums for the first time.

**Provision of advice**

Our customer service advisers help customers review their financial situation, understand the products and services on offer and select those that best suit their particular needs. They help customers understand the health of their finances and can work with them to address any areas which may be of concern. We are currently extending our network of customer service advisers by a further 250, which will enhance our ability to provide our customers with top quality advice when and where they need it. We are also continuing to increase the number of individual personal financial reviews we conduct - an additional 230,000 are planned for 2007.

The 'Retail Diary', an initiative introduced in 2006 as a result of customer feedback, also improves our ability to help our customers. It is a simple appointment booking and management system that enables customers to book appointments with advisers in any banking division at their first point of contact. It connects approximately 30,000 employees across



our branch networks and business channels enabling our colleagues to support each other more effectively, as well as providing access to employees able to provide advice on mortgages and insurance products which are available through our retail branches.

**Increasing customer choice**

Our customers consistently tell us they would like our opening hours to be more flexible and our service to be quicker. In 2006, we extended the number of branches which open on Saturdays to 443, and we also significantly reduced queue times. In addition we offered new mobile phone capabilities to our credit card customers, enabling them to receive alerts, obtain balance information, pay accounts and view transactions by phone.

In August 2006 we launched a new interactive help facility on Internet Banking, following feedback that identified this as a key issue for customers. This additional option allows customers to communicate with us through their channel of choice. The facility also enables customers to let us know

their thoughts on the service which, in turn, allows us to identify future changes which would improve this service. Since the launch, we have received over 200,000 suggestions from customers, an average of 13,000 each week.

We continue to extend a multi-lingual service to our customers. In 2006, NatWest established a call centre with 30 Polish-speaking advisers, and Ulster Bank added foreign language specialists to a number of its branches, as well as publishing a 'Welcome Brochure' with sections in Polish, Portuguese, Lithuanian and Chinese Mandarin.

Communicating clearly and simply with all our customers is also essential. Churchill's pet insurance policy and Direct Line's car and home policy documentation were all awarded the Plain English Crystal Mark in 2006.

**2007 Priorities**

- Retain RBS position as Number 1 for customer service
- Increase customer advisers in branches by 250
- Conduct 230,000 additional individual personal reviews
- Significantly shorten and streamline the mortgage application process reducing time to offer, including valuation, to 48 hours for many customers
- Continue no branch closure policy throughout the UK, open new branches and introduce new mobile banks
- Extend the flexibility of branch opening times by extending the weekday hours and increasing the number open on Saturdays
- Further reduce queuing time in both RBS and NatWest branches by increasing levels of automation and introducing dedicated business tills
- Introduce a new branded Polish account, supported by Polish literature and dedicated Polish-speaking helpdesk
- Improve protection for our customers against fraud by implementing Chip and PIN technology in branches and introducing new profiling technology to identify potential fraudulent transactions

Financial Crime and Corruption

Issues such as identity theft, ATM fraud and online security are the subject of much media attention and can cause considerable concern especially to our customers. It is critical we continue to combat financial crime successfully.



All figures except global fraud refer to the UK

Overview

Issues such as identity theft, ATM fraud and online security are the subject of much media attention and can cause considerable concern especially to our customers. While it is true that successful management of financial crime is dependent upon the acceptance of shared responsibility between the financial services sector, Government and individuals, our research revealed that many of our stakeholders feel financial services companies should bear the greatest liability. There is a common perception that our sector should take more care of personal information and make a greater investment in measures to combat crime and corruption.

In fact, our efforts and achievements in this area are considerable. In 2006 our global fraud losses were reduced by 24% and in the UK our Internet fraud losses decreased by 14% compared with industry-wide increases of 46%. Our excellent performance reflects our considerable level of investment in people as well as systems. We take our responsibilities to protect society in this area extremely seriously. However, our efforts alone will not be enough to combat this growing concern. We also help consumers to protect themselves, by providing discounted shredders and anti-virus software for example. In the US, through Citizens Financial Group, victims of identity theft are offered free assistance to correct inaccurate information and re-establish their credit. We work very closely with our industry, the public sector and with law enforcement agencies, both on a national and international scale, to create a united defence against fraudulent and criminal activity.

Key Developments in 2006

Clearly much of our work in this area is confidential, but here are some examples of our progress in 2006.

Customers

We provided information and advice on fraud and security issues to our customers in a number of ways throughout 2006. Our approach builds on the findings of specific consumer research we conducted into their views on these issues. In May, we issued Home Office endorsed fraud leaflets to all branches, as part of a wider awareness campaign. In October, as part of our activity around Fraud Awareness Week, we provided advice on account, card and PIN security through statement inserts, ATM and Internet messages. Likewise, in the US, fraud awareness has taken centre stage with the display of fraud posters in branches, the inclusion of links to industry-leading fraud publications on Citizens' website, and the insertion of fraud prevention messages in customer statements.

ATMs, online transactions and Point of Sale (POS)

We continually invest in technology to enhance the security of our customers as they access and spend their money. We were one of the first to introduce Chip and PIN technology in the UK and were at the forefront of the industry-wide transition to Chip and PIN in February 2006. This new, more secure way to make card payments was designed to protect cardholders from the risk and inconvenience of card fraud. It is part of a Government-backed initiative which is being fully funded by banks, retailers and card issuers.

We added new card protection kits onto our ATM system in 2006, which prevent criminals from 'skimming' personal card details. We installed a new system, 3D Secure, which provides greater security for Internet purchases. We also launched real time profiling, which analyses spending patterns to enable us to identify possible fraudulent transactions immediately and, in turn, helps us to protect customers from further misuse of their card details.

In the US, Citizens Financial Group has been particularly successful in identifying trends in fraudulent activity caused by credit and debit card information being compromised. In the area of credit and debit card and ATM fraud prevention, Citizens Financial Group maintains loss experiences that are well below the US industry averages.

Information security

Our stakeholder research revealed that the perceived level of care financial services companies take with their customers' personal data is a cause of some concern. We adopt a vigilant approach. For example, only authorised staff can access customer data and we have upgraded our approach to secure disposal of documents containing customer data. In addition, we have ensured that all laptop PCs are encrypted to avoid loss of sensitive data, we have updated our information security guidelines and ensured compliance with the latest legal and regulatory provisions. We also have programmes in place to ensure compliance with the new Payment Card Industry security standards and we have continued to lead the industry in phishing site takedown.

Our aim is to make the RBS group the safest place to do business for our customers. We continually invest in measures to combat crime and corruption. As our results show, it is a battle we are winning.

Mark Fisher,  
Chief Executive, Manufacturing



2007 Priorities

- Offer online customer discounts on anti-virus software
- Offer a single emergency telephone number for both credit and debit cards
- Invest further in technology which authenticates identity during online transactions
- Roll out additional staff security awareness training including a new film highlighting the consequences of internal fraud
- Improve the deposit-hold placement and release process at Citizens, which suspends next day availability on doubtful cheques, in order to minimise the impact on customers while specifically targeting the fraudsters

www.rbs.com/cr



Financial Inclusion and Capability

Most stakeholders consider access to financial services to be a fundamental and basic right and have an expectation that this should be available to everyone.

// We want our products and services to be accessible to, and understood by, as many people as possible in as many places as possible. //

Gordon Pell,  
Chief Executive, Retail Markets



School children at Bushey Meads School, Watford, participating in the RBS 'School Money' programme. In 2007, 100 school banks will be launched in inner city areas.

Overview

Most stakeholders consider access to financial services to be a fundamental and basic right and have an expectation that this should be available to everyone. Financial products are also seen as complex, and it is felt that the financial services industry should be more involved in financial education. Indeed, enhancing financial capability is the key to many of the other issues relating to financial services which our stakeholders have identified and which we consider in this Report.

We want as many people as possible to be able to use our services. We therefore place great importance on widening access to and building understanding of our products and services for everyone, not just the financially excluded. We do recognise that it is right to make extra effort to ensure our services are available to those hardest to reach.

Key Developments in 2006

Financial education

Teaching people how to manage money while still at school is key to addressing many of the financial problems at source which can otherwise be encountered later in life. It makes an enormous difference to levels of capability and understanding over a generation. Our Face2Face with Finance for Schools programme (F2F) is the largest financial education programme for schools in the UK, with over 1 million school children participating since 2004. Over the year, 450,000 pupils in 1,400 schools took part in lessons led by RBS employees. We also launched the RBS 'School Money' programme which enables pupils to set up banks in schools to foster a savings habit. In 2007, we plan to launch 100 school banks in inner city areas.

In 2006, we decided to extend the reach of F2F beyond schools. We launched consumer websites for RBS and NatWest customers, which provide access to practical information and advice to help people manage their money. We also developed a media partnership with the Citizens Advice Bureau and Metro newspaper which involved a series of features to help readers manage their finances better.

As part of their commitments under the Community Reinvestment Act (CRA), Citizens Financial Group's Individual Development Accounts (IDAs) combine learning about financial management with incentives to low income families to save money through the provision of 'matched' savings accounts.

Access

Providing a variety of ways to access our services to all customers, irrespective of level of income, location or physical capability, helps extend our reach. We now have 2,276 branches in Britain, and Ulster Bank is the only full-service bank that continues to open branches in Ireland. In the US, Citizens has more than 1,600 branches, including 11 traditional branches and 29 in-store branches opened in 2006. We operate one in five of all free-to-use ATMs in the UK, the largest free-to-use network in the country. In 2006, we worked with local communities to site 300 ATMs in rural and deprived areas and have offered a further 200 in 2007. Citizens also installed 77 new ATMs in 2006, bringing the total in their network to 3,200. We increased our mobile branch network from 15 to 17, with new routes in North East Scotland and South Wales, enabling us to reach 334 rural communities each week. We also upgraded five of our mobile branch fleet to newer models, which have full wheelchair access.



Help for low-income families

Kimberly Poitras lives in Pepperidge Woods in Barrington, a manufactured housing community developed by the New Hampshire Community Loan Fund. She put her savings from the Individual Development Accounts towards the down payment on her home.

Since 2001, the Citizens Bank Foundation has contributed a total of \$725,000 to the New Hampshire IDA programme: a matched savings programme for low-income families which allows participants to use saved funds to buy houses, start businesses and go to school.

[www.rbs.com/cr](http://www.rbs.com/cr)





**ATMs**

In 2006, RBS worked with local MPs, local authorities, credit unions and post offices to site 300 free-to-use ATMs in the most deprived wards in the UK. Commenting on this initiative in The Daily Mail, John McFall, Chairman of the Treasury Select Committee said: “This is a hugely substantial contribution”. This initiative has been extended in 2007 with the offer of a further 200 free-to-use ATMs for rural and deprived areas.

NatWest launched a new, branded Polish account in the UK in January 2007, helping ensure that the growing Polish community in the UK is fully included in the financial services system. The account provides a card which enables the account holder's relatives in Poland to draw on funds earned in the UK, responding to a previously unmet need expressed by Polish workers. It is supported by a dedicated helpdesk in Manchester with Polish-speaking staff and a Polish language website ([www.natwest.com/welcome](http://www.natwest.com/welcome)) which includes a dual language application form for the new account.

**Basic bank accounts**

We are the largest provider of basic bank accounts in the UK that are accessible through Post Offices. These accounts are specifically designed for customers with low incomes or a history of financial difficulties, who might otherwise be excluded from financial services.

We opened 200,409 basic accounts in the UK in 2006, which give the account holders access to branch services. We actively promote these accounts, putting easily identifiable, stand-alone basic bank account leaflets in all RBS and NatWest branches in the second quarter of 2006.

In the US, Citizens Financial Group opened 612,930 basic checking accounts. These included Citizens' Basic Banking Account and Charter One's Totally Free and Best Free Checking Accounts.

**Lending to deprived areas**

Businesses in deprived areas often have difficulties accessing affordable credit. We try to break the negative cycle wherever possible. Our lending to businesses in

the 5% most deprived wards in the UK increased to £677 million in 2006, giving us an estimated 39% market share. In the US, Citizens Financial Group launched a \$200 million initiative to provide qualified non-profit housing developers with construction financing on favourable terms. This is expected to generate 1,200 affordable housing units in New England.

**Working in partnership**

We recognise that other agencies are also well positioned to provide support to those at risk of being excluded from the financial system. In 2006, we therefore continued our work with Transact, the National Financial Inclusion Forum, which helps organisations such as housing associations, local authorities, advice agencies and credit unions promote financial inclusion to vulnerable groups. Our Innovate Fund, distributed in partnership with Transact, provides resources to non-profit organisations to test new approaches to the promotion of financial inclusion and capability. We donated £100,000 to the fund in 2006, bringing our total support of the fund since launch to £300,000. Organisations which benefited include AIRE (Advice on Individual Rights in Europe), which received a grant of £10,000 to ensure migrant workers from the European Economic Area on low incomes understand how to access financial services in the UK. Another beneficiary was Off the Streets and into Work (OSW), which received £30,000 to empower financially excluded homeless people currently living in hostels.

We also announced a partnership with the National Housing Federation in 2006 and launched a pilot scheme with Grampian Housing Association to provide affordable



credit to people often excluded from mainstream services, who instead turn to more expensive and less regulated options.

In the US, the Citizens Bank Foundation is a partner in CASH (Creating Assets, Savings & Hope): a United Way of Rochester, New York led initiative that helps working families save money. Its goal is to lift families above the poverty line through greater use of tax credits and benefits, offering affordable alternatives to high interest credit, and maximising assets through matched savings accounts, financial literacy, credit repair and home ownership. CASH relies on over 400 volunteers annually and is funded by nine different community members, including the United Way, City of Rochester, Monroe County and Citizens Bank Foundation.

CASH gives families access to information about credit repair, home mortgage assistance and job training by providing them with services and agencies that are willing to meet their needs at little or no cost.

From January to March 2007, CASH has assisted 8,860 families with an estimated


“We know that a lot of our tenants are using in-store and door-step credit and we are very keen to promote this affordable alternative allowing them to borrow between £300 and £1,000.”

Margaret Waddell, Grampian Housing Association's new initiatives manager

\$15.3 million claimed and \$8.2 million in earned income tax credits. This represents over \$23.5 million put back into the local economy.

**Money Advice Trust**

We continue to be the largest corporate sponsor of the Money Advice Trust (MAT), a charity formed in 1991 to increase the quality and availability of free, independent money advice in the UK. In 2006, we agreed to renew our funding for a further 3 years from 2007 - 2009, increasing our total contribution to £5.83 million. Our support allows MAT to improve the quality of face-to-face advice delivered through the Citizens Advice Bureau, Wiseradviser and Advice Northern Ireland and has provided training for 5,000 advisers a year.



2007 Priorities

- Launch new FSA endorsed material for F2F in schools and reach 500,000 pupils in 2007
- Develop the F2F consumer website and extend to additional consumer brands, develop a dedicated student website with links to the F2F site
- Offer a further 200 ATMs in rural and deprived areas
- Open four new mobile branches and upgrade five existing ones
- Work with a small number of housing associations to trial a 'Trusted Partner' model of promoting bank accounts and offering affordable credit to low-income tenants
- Launch a media partnership with The Daily Mail to promote financial awareness
- Offer school banks to 100 inner city schools
- Launch a new account for the Polish community



Employee Practices

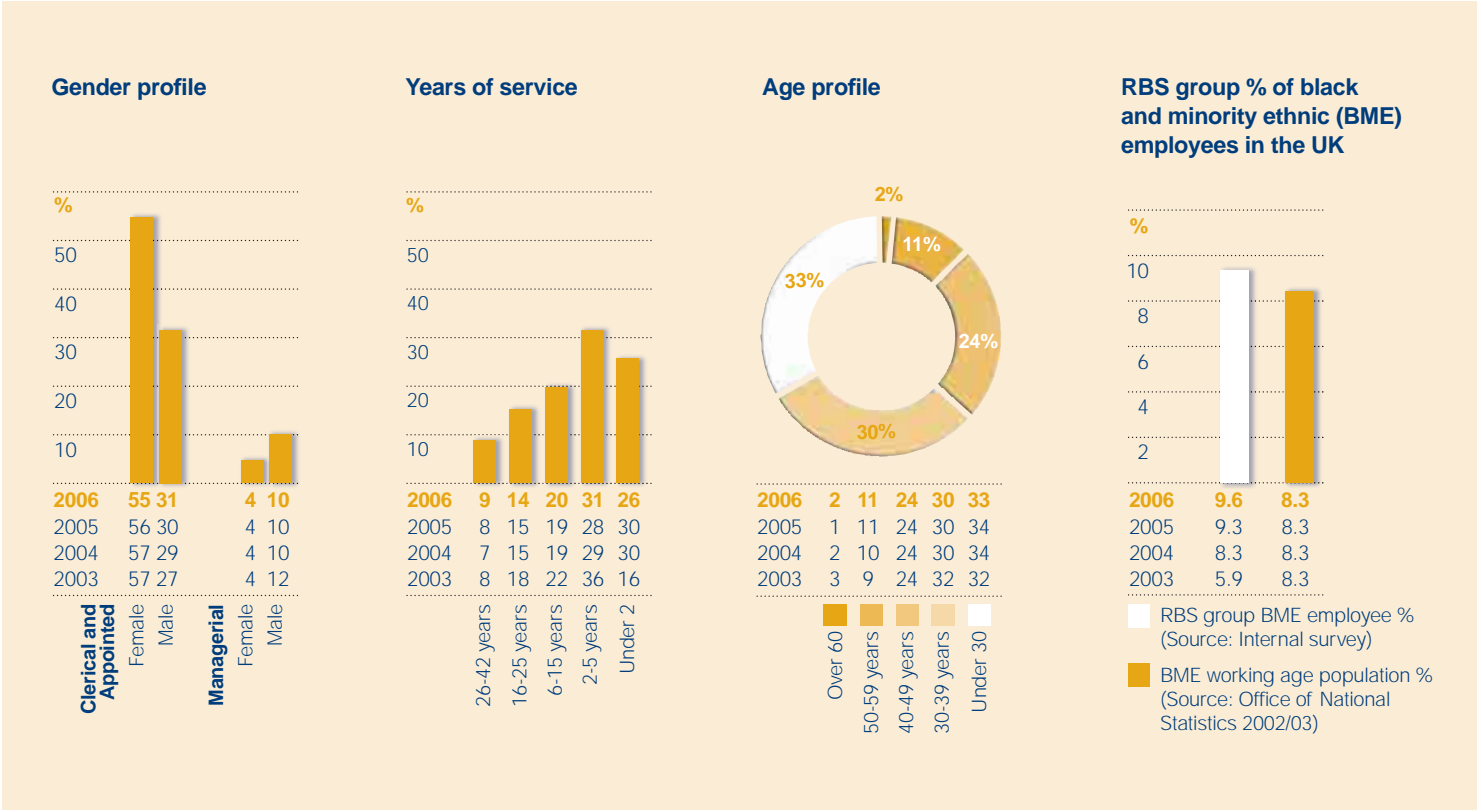
We employ over 140,000 people in 30 countries. We want to attract the best people, enable them to fulfill their potential and secure their continued commitment.

“ The success of the RBS group is dependent on the contribution of our employees, which is why we work hard to ensure we have the highest levels of employee engagement and satisfaction. ”

Neil Roden,  
Group Director, Human Resources



Frances Frei from the Harvard Business School lectures RBS senior managers on strategy and service excellence at the RBS Business School.



Overview

We employ over 140,000 people in 30 countries. While the requirements of each country and each of our businesses are different, our objectives for managing our people are constant across the Group. We want to attract the best people, enable them to fulfill their potential and secure their continued commitment. In 2006, we outperformed our global peers in the financial services industry on every one of the 15 categories in our Employee Opinion Survey for the second year running.

Key Developments in 2006

**Work life**  
We set out the essential standards of behaviour we expect from our employees through our Group-wide Global Code of Conduct, which guides our individual actions. It is distributed to all of our employees, in all of our areas of operation. In 2006, we extended the number of languages in which it is available, with the introduction of a Chinese version. Our YourTime policies lay out clearly the working arrangements open to employees enabling them to work flexibly to fit their individual

needs within the framework of our business requirements. In 2006, we increased the range of options with the introduction of Foster Leave, which entitles parents of new foster children to five days' paid leave, thus enabling a 'settling in' period. We also extended the maximum amount of time our employees in the UK can take off under our short-term employment break policy, from three months to six months. In 2006 over 22,600 employees in the UK took advantage of our flexible working policies.

| 2006 Employee Opinion Survey results (%) |      |      |      |                   |
|--|------|------|------|-------------------|
| Category                                 | 2004 | 2005 | 2006 | Group v Norm 2006 |
| Image and Competitive Position           | 61   | 68   | 68   | +6                |
| Co-operation and Working Relationships   | 75   | 76   | 77   | +5                |
| Communication                            | 71   | 74   | 75   | +11               |
| RBS Group Leadership                     | 66   | 69   | 69   | +5                |
| Respect and Diversity                    | 80   | 83   | 83   | +7                |
| Performance Management and Development   | 62   | 65   | 65   | +4                |
| Job Satisfaction and Engagement          | 66   | 70   | 68   | +2                |
| Recognition and Reward                   | 63   | 68   | 68   | +6                |
| Managing People and Change               | 68   | 70   | 70   | +5                |
| Employment Security                      | 74   | 77   | 75   | +8                |
| Efficiency                               | 55   | 57   | 58   | +3                |
| Innovation                               | 69   | 73   | 73   | +6                |
| Workload and Work Life Balance           | 65   | 69   | 69   | +5                |
| Customer Focus                           | 76   | 79   | 80   | +2                |
| Division Leadership                      | 61   | 65   | 65   | +5                |

Employee satisfaction

Understanding how our employees feel about working for RBS enables us to respond to their emerging needs and helps to ensure their continued optimum performance. Each year, we use our confidential and independently administered Employee Opinion Survey (EOS) to gain a comprehensive insight into employee satisfaction levels on a number of measures across the Group. We achieved a record response rate of 87% in 2006, which was more than 10% higher than the financial services average. For the second year running, we outperformed our global peers in the financial services industry in each of the 15 survey categories.

As our Employee Opinion Survey evolves, we are constantly reviewing the question content to ensure the categories we analyse remain fit for purpose. In order to produce comparable data across the three surveys, we have retrospectively applied the 2006 category content to the 2004 and 2005 survey results in the data table.

Training and development

Identifying and developing talent at all levels throughout all our divisions is the foundation of the long-term growth of our business. We have built our own Business School at our headquarters in Edinburgh. In 2006, more than 1,400 senior managers attended the school, which offers Harvard Business School programmes covering topics such as Strategy and Service Excellence, Leadership, Customer and Marketing Management and Innovation. We also work with the Harvard Business School and employee insight consultants, ISR, on our Group-wide ‘Service Excellence

Through People’ initiative. This enables us to measure the effectiveness and impact of our people strategy and identify key attributes, such as leadership effectiveness that have the greatest impact on business performance and customer service. In 2006, we introduced ‘Talent Watch’, which helps us identify, develop and mobilize talent throughout the Group.

We also use our ‘Work-Out’ programme to engage and involve our people in helping to continuously improve the ways we work as an organisation and the services we deliver to our customers. Work-Outs bring people from every level of the business together to suggest and implement improvements to all our systems and practices, from mortgage application processes to branch improvement plans. Around 25,000 employees were involved in 1,849 events in 2006, generating £139.3 million of benefit to the Group, significantly exceeding our targets. In 2006, the achievements included a 25% reduction in the travel and entertainment budget in Retail Markets and a significant reduction in the time taken to process non-plastic fraud.

Diversity

We value and promote diversity in all areas of recruitment, employment, training and promotion. We aim to operate in an environment that is based on meritocracy and inclusiveness, where all employees can develop their full potential, irrespective of their race, gender, marital status, age, disability, religious belief, political opinion or sexual orientation.

Our approach to diversity in the workplace is market leading, as the various

awards and accolades we received in 2006 demonstrated. These included Gold Standard Awards from both ‘Opportunity Now’ and ‘Race for Opportunity’, with improved scores of 90% and 92% respectively. RBS was also included in ‘The Times Top 50 Places Where Women Want To Work’ list. In addition, we received a ‘leading the way’ award for excellence in disability management from Remploy, an organisation which creates independence for disabled people through work.

During 2006, we developed and introduced online diversity training across the UK, to a best practice standard. We also launched a new management diversity event, attended by over 250 managers.

Age

We are fully committed to promoting age diversity. We assess our employees on the basis of their skills, ability and potential, not their age, and we seek to eliminate age ‘stereotyping’. Employment and personal career development opportunities are available, irrespective of a person’s age, as are the flexible working options offered in our YourTime programme.

We regularly review our policies and practices to ensure they comply with the principle of age diversity and, for employees who wish to work beyond retirement, we have introduced a flexible retirement policy. For example, we undertook a full review of all employee processes and procedures and implemented training in advance of the Employment Equality (Age) Regulations 2006 which came into force on 1 October 2006.



Flexible retirement

Marlene Read, age 64, works in the collections department at Southend call centre. Marlene appreciates the opportunity provided by the new Age Legislation and the Group’s flexible retirement policy which allows her to continue to work with an experienced and dedicated team.



Avril Torrens works compressed hours to suit her childcare arrangements. Her son, Adam, was one in December. Avril works in Group Communications and has been with Ulster Bank Group for 13 years.



**Rewards and remuneration**

Our reward framework emphasises market performance, pay for performance and flexibility. Our *RBS*elect** benefits plan enables employees to customise their remuneration to fit their individual needs and circumstances. Employees can choose from a variety of benefit options including private medical cover, subsidised childcare vouchers and a range of retirement savings options. Participants in *RBS*elect** have EOS engagement scores which are 20% higher than non-participants.

**Health, safety and wellbeing**

During 2006 we focused on further enhancing our health, safety and wellbeing strategies, standards, systems and supporting mechanisms. Our goals are to minimise work related injuries and incidents of ill health, promote good health and to be recognised by our people for our commitment to safety, health and wellbeing.

The Group's revised stress policy was launched in February 2006 supported

by a range of measures to help line managers tackle stress in their teams. These include an innovative approach to stress risk assessment and an online stress awareness module. We are focusing on embedding these across the Group tailoring the approach for each division to ensure maximum effectiveness. We also continue to collaborate with the Health and Safety Executive (HSE) to support their stress reduction programme.

A health and wellbeing programme, using a health risk assessment and a combination of online and interactive interventions, was piloted with 2,500 people in cards and direct finance and Coutts for six months. Coutts' employees who practised positive health behaviour achieved a 34% reduction in average absence per employee and exhibited 53% less absence per employee compared to the control group. Coutts also recorded no incidents of stress related absence during the pilot. In cards and direct finance, employees who participated in the programme achieved

**Reportable accidents comparison**

Injury rate per 100,000



a 7% reduction in average days lost in absence per employee and a 55% reduction in days lost to stress related absence.

HelpDirect, a service that offers advice, information and support on a full range of lifestyle topics that can be used by our people as their needs arise, was re-launched and aligned with the Group's broader wellbeing agenda. The re-launch increased online accessibility to more than 90% of our UK and Ireland employee population compared to less than 10% in 2005. This resulted in significant increased online usage from 3,500 hits to more than 35,000 over the year. In addition, the usage of the helpline service increased from 5.4% (2005) to 7.4%.

Critical incident support, which provides 24/7 telephone access to qualified clinicians and counsellors, has been extended globally to ensure we provide a consistent level of support to our people wherever they are located.

On 1 June 2006 the Group introduced a revised version of the Group Sickness

Absence Policy, designed to recognise and manage health problems at an early stage, for the benefit of our people and the Group. The figures for employee absence remain static at 3.5%. We continually work to reduce our employee voluntary turnover which currently stands at 11%.

In 2006 there were 1,847 work-related accidents reported for our employees. Of these, 183 were accidents requiring to be reported to the health and safety enforcing authorities. This equates to an injury rate of 181 per 100,000 against the Business and Finance Index benchmark of 202 per 100,000. The graph above shows the Group's favourable position against this index for the last four years.

**2007 Priorities**

- Refine EOS to one global question set. Increase the number of employees who can access the survey online by 31%, increasing online access to 89% of our employee population
- Analyse and understand global variations in EOS results. Benchmark against global high performing peer group and take action to improve results further
- Use the leadership index and tools developed to support and measure the effectiveness of our leaders and managers and to inform our development programmes across the Group
- Implement our award winning diversity best practice policies across Europe, Asia and the Middle East and benchmark our performance across all geographic locations
- Extend diversity training to all employees and ensure that future training and development programmes are constructed to take account of diversity issues
- Extend our successful European flexible benefits (*RBS*elect**) to our businesses in North America and the Far East
- Develop a global health, safety and wellbeing policy and management framework built on core principles and supported by policies, standards and guidance



The Environment

The Group recognises the significant global threat posed by climate change. We take our responsibility in this area seriously and are committed to reducing the carbon intensity of our business and raising awareness of environmental issues amongst employees, customers and suppliers.



Photovoltaic cells, which convert solar light into electricity, cover an area of 30 sqm at the Cyan Building, Rotherham.

// **We are committed to reducing the carbon intensity of our business by focusing on minimising emissions at source, through energy efficiency measures and the purchase of renewable energy.** //

Mark Fisher,  
Chief Executive, Manufacturing

Overview

The Group recognises the significant global threat posed by climate change. We take our responsibility in this area seriously and are committed to reducing the carbon intensity of our business and, mindful of our employees' interest in this area, helping our people to manage their own environmental impact.

General awareness of environmental issues is increasing. Financial services companies have a relatively low carbon footprint and the RBS carbon footprint per full time employee (FTE) is one of the lowest amongst UK banks. Our stakeholder work at the end of 2006 nevertheless identified the environment in its broadest sense as one of the key issues for financial services, especially for employees in relation to managing our own direct footprint. This section focuses on how the Group manages our own direct environmental impacts addressing our progress in 2006 and, most importantly, our plans for 2007.

We are committed to reducing the carbon intensity of our business by focusing on minimising emissions at source, through energy efficiency measures and the purchase of renewable electricity.

Key Developments in 2006

RBS has had an Environmental Management System in place for a number of years, and in 2006 we have continued to make some good progress in this area.

We bought 74% of our UK and Republic of Ireland electricity from renewable sources and reduced our carbon footprint by 210,000 tonnes of CO<sub>2</sub> – 36% of the Group's total footprint.

We switched to recycled paper for

office use in the UK and the Republic of Ireland. We extended our furniture recycling partnerships with social enterprises by launching a new partnership with Recycle Scotland where we will donate approximately 3,500 tonnes of furniture in the first two years.

We achieved ISO14001 environmental certification for our printing and mailing facilities, adding to the certification achieved in 2005 for the new Group headquarters in Edinburgh. In addition, we were awarded a National Transport Award in July 2006 for our traffic management at the Group headquarters. This included developing a staff travel website, subsidising some local bus routes, as well as providing office cycling facilities, support for car sharing schemes, a car parking management system and flexible working practices.

Our Ethical Purchasing Programme, in place since 2004, was enhanced to include a more rigorous assessment process for identifying the CR risks and opportunities within our supply chain.

Plans for 2007

Through a combination of using renewable electricity and improved efficiency, we will continue to focus on reducing our carbon footprint. The Group anticipates that the carbon intensity per FTE of its operations will reduce by around one-fifth between 2007 and 2011.

Green electricity

We further extended our commitment to purchasing green energy. From October 2007 we will have in place a three year electricity contract set to purchase 100% of the Group's electricity in Great Britain from renewable sources.



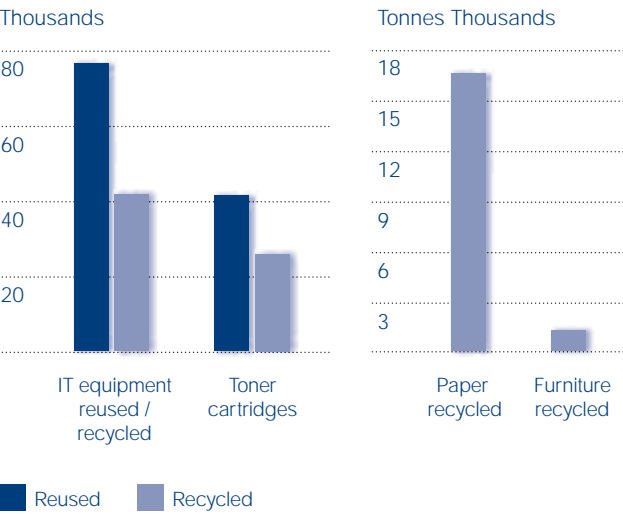
Photo-cell technology

In January 2006, Citizens Financial Group launched the 'Flex Your Power' energy conservation campaign to reduce energy consumption and improve efficiency. As part of this project, 300 company signs were converted to photo-cell technology. This ensures that the signs are illuminated only when natural light is reduced. This initiative achieved a cost reduction of more than \$800,000.

[www.rbs.com/cr](http://www.rbs.com/cr)



UK & Ireland Waste: Resources sent for external reuse\* / recycling (\*reused by partner organisations)

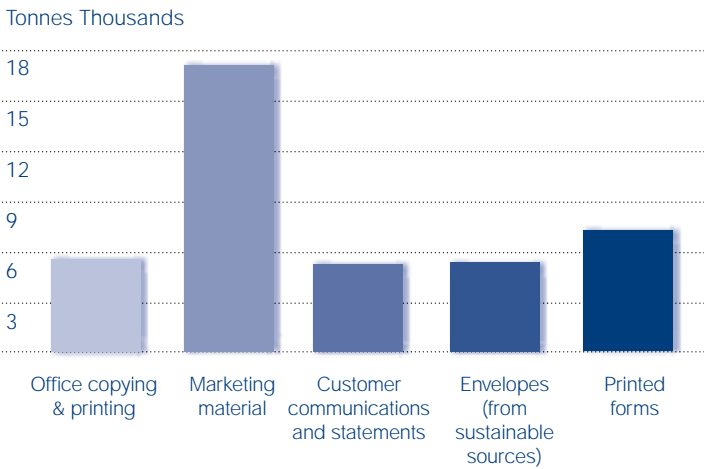


**Property portfolio**  
We are investing £55m over three years to deliver environmental impact gains in our property portfolio. This programme comprises:

- retrofitting energy efficient technology including building management systems, lighting controls and metering systems
- including technologies such as improved insulation and heat recovery in refurbishment projects
- conducting pilots in both branches and office buildings of emerging technologies such as solar roof tiles, biomass boilers, rainwater collection and recycling, roof-mounted wind turbines and ground source heat pumps.

We estimate this will reduce our carbon footprint by 97,000 tonnes per year when complete.

UK & Ireland Consumables: Paper usage



**Employee proposition**  
In June 2007, we launched an employee proposition which gives our people options to help them minimise their footprint at home as well as at work.

We will also continue to encourage wider use of video conferencing and web-casting among employees to minimise air travel. We have increased the number of video conferencing studios from 430 in 2004 to 711 in 2007.

**Carbon offset**  
We are reviewing options for carbon offsetting and have put in place information and arrangements for employees to offset their own emissions. Our primary focus will continue to be on emissions reduction at source.

| Key Environmental Data   |                   |                   |                       |                       |
|--|-------------------|-------------------|-----------------------|-----------------------|
| Utilities  |                   |                   |                       |                       |
| Energy usage in premises   | 2005 UK & Ireland | 2006 UK & Ireland | 2005 USA <sup>2</sup> | 2006 USA <sup>1</sup> |
| Total energy consumption (GWh)   | 1,018             | 1,022.1           | 326                   | 267.6                 |
| • Renewable electricity (% of renewable electricity relative to total energy consumption)      | 40.7              | 46.8              |                       |                       |
| • Renewable electricity (% of renewable electricity relative to total electricity consumption) | 66.9              | 74                |                       |                       |
| CO <sub>2</sub> emissions from property based energy use                                       |                   |                   |                       |                       |
| • CO <sub>2</sub> (kilotonnes)   | 172.1             | 153.7             | 120.3                 | 103.1                 |
| • CO <sub>2</sub> / FTE (tonnes/FTE)   | 1.68              | 1.52              | 4.72                  | 4.23                  |
| Property based water consumption   |                   |                   |                       |                       |
| Water usage (million m <sup>3</sup> ) in metered premises                                      | 1.76              | 2.19              |                       |                       |
| Business travel  |                   |                   |                       |                       |
| Distance   |                   |                   |                       |                       |
| Air (million kilometres)   | 182               | 197.8             | 30.9                  | 37.1                  |
| Road (million kilometres)  | 137               | 132.9             |                       | 49                    |
| Rail (million kilometres) <sup>3</sup>   | 26.3              | 29.6              |                       |                       |
| Estimated CO <sub>2</sub> emissions  |                   |                   |                       |                       |
| Total business travel-related CO <sub>2</sub> emissions (kilotonnes)                           | 49.9              | 50.9              |                       | 19.1                  |
| Total business travel-related CO <sub>2</sub> emission per FTE (tonnes/FTE)                    | 0.49              | 0.50              |                       | 0.78                  |

<sup>1</sup> Citizens and RBS employees in the USA  
<sup>2</sup> Citizens only  
<sup>3</sup> UK only

2007 Priorities

- Extend purchase of green electricity
- Complete first phase of investment in three year £55m programme to deliver environmental impact gains in our property portfolio
- Develop and launch a proposition for our employees to minimise their carbon footprints at work and at home by end June 2007
- Pilot range of emerging technologies including solar roof tiles, biomass boilers, rainwater collection and recycling, roof-mounted wind turbines and ground source heat pumps
- Extend energy efficiency programme to USA

# Project Finance and Equator Principles

The Equator Principles are a financial industry benchmark for determining, assessing and managing social and environmental risk in project financing.



In partnership with Callion and Department for Transport, RBS financed the construction of the new bridge between the UK mainland and the Isle of Sheppey. Reproduced with kind permission of Callion

## Overview

The Equator Principles are a financial industry benchmark for determining, assessing and managing social and environmental risk in project financing. These ten Principles provide a framework for the management of the environmental and social risks associated with projects such as oil and gas installations, dams and infrastructure.

RBS was one of the first ten financial services organisations to adopt the Equator Principles at their launch in Washington, DC on 4 June 2003, recognising their importance in bringing a level of environmental and social evaluation, transparency and discipline to projects which might otherwise be absent.

In less than four years, these Principles have now been adopted by over 45 financial institutions representing more than 80% of global project finance capacity. During 2006, these Principles were updated to lower the threshold for projects from \$50m to \$10m and raise the levels of disclosure.

By adopting these Principles, RBS undertakes only to finance projects that meet the environmental and social standards laid out in the Equator Principles. All projects are classified into three categories according to the perceived degree of risk and impact: A (High), B (Medium) and C (Low). For Category A and B projects, the borrower undertakes to comply with an independently assessed environmental and social management plan throughout the duration of the project.

## Key Developments in 2006

### Implementation of the Equator Principles

The Sustainable Development team within our Global Banking & Markets division was established to oversee implementation of the Equator Principles and seek new sustainable business opportunities. It played a key part in the development and launch of the revised Equator Principles in July, and followed this up with a technical training programme to support the updated implementation process for these revised Principles. This training is mandatory for all our Project Finance bankers – deal, credit and portfolio management teams – and was completed by 31 March 2007. It will enable our bankers to undertake full categorisation assessment within their own teams for the projects under their control, prior to submission for approval to the central Sustainable Development team. These teams then work directly with the client to ensure all projects proceed in accordance with the Equator Principles.

### Projects financed

The table and the map overleaf show the breakdown by category, industry sector and domicile of the projects financed by RBS as at 31 December 2006. While the Equator Principles apply to every project across the globe, regardless of domicile or project capital cost, there is an obvious difference between lending to highly advanced countries, which have strict legal environmental standards, and less well developed countries which may not. It is in these emerging markets (non-OECD) that the Equator Principles are particularly pertinent.

Our market share of arranging finance for renewables is four times greater than our market share of oil and gas arranging worldwide.

Johnny Cameron,  
Chief Executive, Corporate Markets

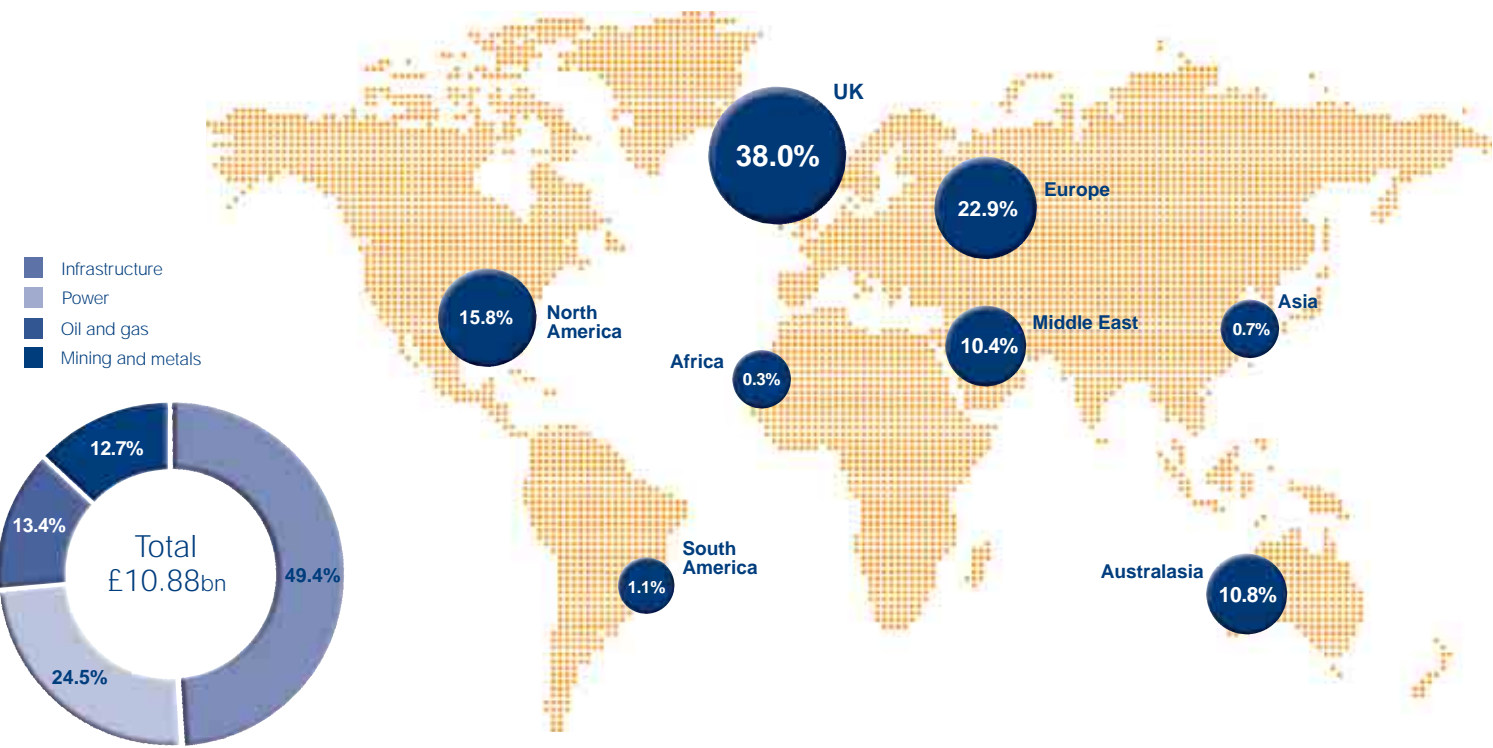


Renewable energy

RBS was the largest provider of funding to renewable generation projects in the UK in 2006. Ulster Bank's Structured Finance team has been actively focusing on financing projects in the renewable energy sector in Ireland over the past eight years. In 2006, this team provided funding for a small scale hydro project in the Ards Peninsula. Generating 56kW at peak output, it can generate 88,000 units of renewable electricity every year.



RBS group Project Finance lending by sector and location as at 31 December 2006 (%)



Although the RBS group's Project Finance is global and substantial in scope, our lending is predominantly situated in countries with developed social and environmental regulation. As the table (right) shows, over 84% of projects first logged in 2006 were in high income OECD Countries with only 16% in other OECD or non-OECD countries. In particular, less than 2% of our Project Finance funding is in Africa and South America.

We provide Project Finance to a large number of sectors, and within these sectors we fund a diverse range of projects.

Our lending to the energy sector is split between oil and gas and renewable sources of energy. Indeed, we are committed to working with our customers to assist in the long-term transition to a low-carbon economy. We will continue to be at the forefront of financing new clean technologies as they become commercially viable. Renewables make up a sizeable proportion of our energy portfolio. We fund a wide number of projects, from large European windfarms to micro-hydro renewable schemes. Our market share of arranging


finance for renewables is four times greater than our market share of oil and gas arranging worldwide and, as the number one arranger, is nearly twice the level of the next largest arranging bank (source: Infrastructure Journal 2006). By far the largest share of our lending to oil and gas is in the UK, which is subject to a robust regulatory framework, where the energy sector has played an important role in the development of the economy, supporting over 330,000 jobs.



| Status of PF deals first logged in 2006   |   |    |   |       |
|---|---|----|---|-------|
| Equator Principle Category                | A | B  | C | Total |
| Deals completed / in course of completion | 1 | 35 | 3 | 39    |
| Deals declined                            | 0 | 17 | 0 | 17    |
| Deals dormant                             | 0 | 33 | 0 | 33    |
| Total number of deals                     | 1 | 85 | 3 | 89    |

| PF deals first logged in 2006 by industry sector |   |    |   |       |
|--|---|----|---|-------|
| Equator Principle Category                       | A | B  | C | Total |
| Infrastructure                                   | 0 | 37 | 0 | 37    |
| Power generation & transmission                  | 0 | 29 | 0 | 29    |
| Oil & gas  | 1 | 13 | 3 | 17    |
| Mining & metals                                  | 0 | 6  | 0 | 6     |
| Total number of deals                            | 1 | 85 | 3 | 89    |

| PF deals first logged in 2006 by domicile |   |    |   |       |
|---|---|----|---|-------|
| Equator Principle Category                | A | B  | C | Total |
| High income OECD                          | 0 | 72 | 3 | 75    |
| Other OECD                                | 0 | 2  | 0 | 2     |
| Non-OECD                                  | 1 | 11 | 0 | 12    |
| Total number of deals                     | 1 | 85 | 3 | 89    |



2007 Priorities

- Revise the implementation and procedures manual to reflect the additions of Equator Principles II and ensure this is communicated and understood by all relevant personnel
- Prepare a technical training module on Equator Principles II, and deliver this training to all of the target audience of deal transactors, credit managers and portfolio managers - some 120 personnel by end Q1
- Revise the awareness training module and deliver this to relevant personnel in the risk, legal, credit committee, Group CR and Group Communication teams, as well as to senior Global Banking and Markets management
- Supplement this training by developing an e-learning module for those either unable to attend the training sessions or wishing to revisit the training
- Ensure successful transition to individual deal teams categorising projects, prior to submission centrally
- Increase transparency and disclosure of Equator Principles implementation in accordance with revised EPs in July 2006



Supporting SMEs / Entrepreneurialism

Encouraging entrepreneurialism, helping business start-ups and supporting small and medium sized enterprises (SMEs) are all important aspects of our role as a financial services provider.



NatWest small business customer, Katie Randall of Yellowwave Volleyball.

Overview

Encouraging entrepreneurialism, helping business start-ups and supporting small and medium sized enterprises (SMEs) are all important aspects of our role as a financial services provider. New businesses lead to job growth and wealth creation – they are central to the health of the economy. We are the market leader in this area in the UK, with 27% of customers, 34% of lending and 27% of deposits. Our stakeholder research identified a perception amongst small business owners that obtaining loans can be difficult due to high levels of risk aversion in the financial services sector. In direct contrast to this perception, our Business Lending Unit approves almost 80% of loan applications from small firms.

We are also particularly committed across the Group to supporting businesses in deprived areas. In the UK, in 2006 our lending to businesses in the 5% most deprived wards increased to £677 million – an estimated 39% market share. In the US, Citizens Bank joined the Greater Philadelphia Urban Affairs Coalition in January 2007, along with other local banks, to launch a new pilot loan programme for small businesses in low-income and ethnic minority areas. The ‘Philadelphia Business Builder Loan Program’ will provide a route for small businesses with higher credit risks to obtain bank finance. Through its ‘Uptown Initiative’, Charter One supports economic and community development in the Cleveland area. It will make \$150 million in loans available over the three years. This includes \$10 million to enhance small business development in the neighbourhoods, including promoting retail opportunities, improving neighbourhood commerce and providing training and technical assistance to help small businesses grow.

Key Developments in 2006

Providing support

We increased our focus on start-ups and small businesses in the UK by adding more than 500 business relationship managers into RBS and NatWest front-line branch networks. All new managers were in place by March 2007. Our business managers’ emphasis is on building relationships. They aim to become trusted advisers to the businesses and local communities in which they serve.

We also invested in training to ensure our teams have a full understanding of the business environment and operations of the small business customer. Our Annual Business Review process ensures that all of our business customers discuss every element of their finances at least once a year, and we provide our customers with appropriate recommendations for the future as part of this process.

We also developed our product and service offering for start-ups and small businesses. A capital repayment initiative, which enables businesses to take ‘repayment holidays’, and the offer of 12 months’ free banking to start-ups are amongst the new options on offer. In the island of Ireland, Ulster Bank is offering a new Business Start-up Package, which includes free current account banking for three years and access to business mentoring through an alliance with Chambers Ireland.

Youth enterprise

We promoted and supported youth enterprise through a number of programmes and partnerships in 2006. Part of the £1 million we provided to the Prince’s Trust in 2006 funded a series of regional Enterprise Awards, which recognise young people who have set up successful and sustainable

businesses. We fund the Prince’s Trust ‘Make it Work’ programme. This encourages young people to set up a social enterprise in their local community. We are also providing £80,000 over three years to the Prince’s Scottish Youth Business Trust, which funds The Royal Bank of Scotland/Prince’s Scottish Youth Business Trust Annual Entrepreneur of the Year Award. This covers 18 regional awards ceremonies and one national award ceremony. In addition, we support the Young Enterprise Scotland awards programme.

Social enterprise

Social enterprises are businesses with a social purpose. Through Enterprising Solutions, a national social enterprise awards programme run in association with the Cabinet Office, DEFRA, Social Enterprise Magazine and The Observer, we commit £60,000 per annum to recognising and celebrating the best social and community enterprises. Sunderland Home Care Associates, which offers a high quality range of care packages and services for people in the Sunderland area, was the overall winner in 2006, receiving a cash prize of £10,000. We also run a programme called Enterprise for All, in partnership with HM Treasury, which tackles barriers to enterprise in the UK’s most disadvantaged areas. At the moment, the rate of business creation in our most deprived communities is only about one sixth of the rate in the most affluent. This programme helps to address this, through a series of rolling events in the most deprived areas across the country. Special events were held in Birmingham, Preston and Bermondsey in 2006.

Small Business is integral to many of the economies and communities in which we operate and has a key role to play in driving the regeneration process.

Gordon Pell,  
Chief Executive, Retail Markets



Stuart Ebdy, Whitespark Promotions, winner of the 2006 RBS/Prince’s Scottish Youth Business Trust Entrepreneur of the Year Award presented by Andy Murray

2007 Priorities

- Continue to improve our service offering including further representation across our branch network
- Continue investment in staff development, marketing, and auto-approval technology to allow quicker decision making
- Further investment in training so that our teams better understand the small business environment and the operations of the small business customer
- Develop product offering

[www.rbs.com/cr](http://www.rbs.com/cr)



Community Investment

Our community activity is focused on matters that are central to our business such as financial inclusion, money management advice and support for enterprise.

// We invested more than £58.6m in the community in 2006, including £12.7m for charities through our unique double-matching Give As You Earn programme and Community Cashback awards. //

Howard Moody,  
Group Director, Communications



Children from St Mary's RC Primary School, Gorleston, Norfolk, participating in the Supergrounds programme.

Overview

Our community activity is focused on matters that are central to our business such as financial inclusion, money management advice and support for enterprise. Our research indicates that this approach reflects the expectations of our stakeholders. Much of our activity in these areas has been reported under the relevant issue sections of this report and further information can be found at [www.rbs.com/community](http://www.rbs.com/community).

As well as integrating our efforts into our business wherever possible, we also work with charitable partners and community organisations. The combination of the expertise of our key partners with the considerable talents and enthusiasm of our employees makes our community involvement extremely effective and rewarding for all concerned. In 2006, we invested £58.6 million in the communities where our employees live and work worldwide.

In addition to supporting the causes that matter to our business, we also want to support those that matter to our people. Our double-matched employee giving programme, Give As You Earn, is unique in the UK, where the company supports every £1 donated by an employee with a further £2. We plan to extend this to other parts of the Group in 2007. Employees who give up their time to help local community groups can also apply for a Community Cashback award of up to £1,000. In 2006, over 25,000 employees took part in our employee giving programmes generating £12.7 million for over 8,500 charities and good causes across the UK and Ireland.

We acknowledge the efforts of our employees annually through The Chairman's Awards for Community Excellence. These awards celebrate and recognise the contribution that our employees make to their local communities in their own time. In 2006, we received over 700 nominations for these awards. The winner was Jim Smith of Retail Markets for his sustained contribution to youth football over the last 20 years.

| 2006 Highlights From Our Key Partnership Programmes |   |
|---|---|
| Supergrounds  | RBS Supergrounds programme was extended for a further three years to 2010, by which time 900 schools will have been involved. Since 2004, 450 schools have been transformed into attractive and stimulating places where children can learn and play in safety. In 2006, 150 schools benefited from the programme which was also extended to Northern Ireland.  |
| The Prince's Trust                                  | In November 2004, the Group committed £5 million over five years to support the Trust's core work and to encourage employees to volunteer and fundraise for all major Prince's Trust programmes. In 2006 over 860 Group employees volunteered their help.   |
| YouthBank   | In July 2006, Ulster Bank Group launched YouthBank - a partnership with The Community Foundation for Northern Ireland, The Community Foundation for Ireland and The Irish Youth Foundation. Ulster Bank Group committed £1.3 million to a 3-year plan to establish 30 YouthBanks, where groups of 8-10 young people meet to establish a process of providing grants to local youth-led projects.                            |
| Fairbridge  | Through our partnership with youth charity Fairbridge, over 500 Group employees in 2006 helped young people from some of the most deprived inner-city areas in the UK. As well as delivering Money Matters courses as part of the 'Independent Living Skills' programme, RBS employees also take part in team building opportunities with the young people that Fairbridge supports.  |
| The First Tee                                       | For the past five years in the US, RBS group has been a national partner of The First Tee, an initiative of the World Golf Foundation. In August 2006, Ulster Bank Group announced its support of The First Tee. This initiative enables children and teenagers to discover how the skills essential to success on a golf course can help them flourish in life.  |
| Champions in Action                                 | Citizens Financial Group's (CFG) signature programme, Champions in Action <sup>SM</sup> , supports local not for profit organisations to help build long-term sustainability. State committees of CFG employees, community advisers and media partners convene to award grants of \$25,000. The beneficiaries are also given access to CFG's internal resources such as marketing, technology, not-for-profit banking, etc. |




2007 Priorities




- Improve awareness of our programmes through increased and focused communications
- Extend Give As You Earn and the Community Cashback award giving programmes overseas
- Grow the Supergrounds programme to become a wider schedule of activity promoting learning and play for children
- Develop a 'Supergrounds vouchers for schools' pilot linked to ATMs
- Increase the number of employees giving their time to charities by enhancing our existing volunteering partnerships and creating new ones




Our Progress and Our Priorities

This table sets out our 2006 performance and 2007 priorities for each issue area. All priorities set for 2006 in our 2005 CR Report are listed.

|  Issue                                       | Progress in 2006   | Priorities in 2007  |
|---|--|---|
| <div>Lending practices</div>                 | <ul style="list-style-type: none"><li>• CRA data used on all new and historical loans and mortgages</li><li>• Committed to APACS Behavioural Data Sharing project</li><li>• New scorecards to assess an individual's level of risk</li><li>• Helped 5,000 people in financial difficulty through new credit management team</li><li>• Sent 97,000 students booklet on money management</li></ul>   | <ul style="list-style-type: none"><li>• Further extend usage of CRA data</li><li>• Enhance internal data sharing</li><li>• Formalise approach to identifying and assisting customers in difficulty</li><li>• Increase investment, pension-related and tax savings products</li><li>• Review sales processes to enhance customer experience and reward customer service</li><li>• Launch new products to support Government initiatives</li><li>• Implement centralised product promotions sign-off process</li></ul>  |
| <div>Customer service</div>                | <ul style="list-style-type: none"><li>• Over 300 customer discussion groups, 1,200 mystery shopping exercises, over 150,000 customer interviews, 650,000 branch satisfaction questionnaires</li><li>• RBS consumer banking Number 1 in independent customer satisfaction ratings, NatWest second</li><li>• Improved customer satisfaction at Churchill and reduced complaints at UKI</li><li>• Offered new services through mobile phones</li><li>• Extended branches open on Saturdays to 443</li><li>• Personal customers 'first time resolution rates' improved</li></ul> | <ul style="list-style-type: none"><li>• Retain RBS position as Number 1 for customer service</li><li>• Increase customer advisers in branches by 250</li><li>• Conduct 230,000 additional individual personal reviews</li><li>• Significantly shorten and streamline the mortgage application process</li><li>• Continue no branch closure policy throughout the UK, open new branches and introduce new mobile banks</li><li>• Extend the flexibility of branch opening times</li><li>• Further reduce queuing time in both RBS and NatWest branches</li><li>• Introduce a new branded Polish account</li><li>• Improve protection for our customers against fraud</li></ul> |
| <div>Financial crime and corruption</div>  | <ul style="list-style-type: none"><li>• Successful transition to Chip and PIN technology</li><li>• Introduced 3D secure capability to provide greater security for Internet purchases</li><li>• Thwarted over £150m of attempted fraud attacks as a result of new profiling technology</li><li>• Introduced card protection kit to prevent skimming of personal card details</li><li>• Global fraud losses reduced by 24%</li></ul>  | <ul style="list-style-type: none"><li>• Offer online customer discounts on anti-virus software</li><li>• Offer a single emergency telephone number for both credit and debit cards</li><li>• Invest further in technology which authenticates identity during online transactions</li><li>• Roll out additional staff security awareness training</li><li>• Improve the deposit-hold placement and release process at Citizens</li></ul>  |

|  Issue   | Progress in 2006   | Priorities in 2007   |
|---|--|--|
| <div>Financial capability and inclusion</div>  | <ul style="list-style-type: none"><li>• Opened 200,409 basic bank accounts in the UK and 612,930 basic checking accounts in the US</li><li>• Installed 300 free-to-use ATMs in the UK's 50% most deprived areas</li><li>• Increased mobile branch network to 17</li><li>• Built 11 traditional and 29 in-store branches in the US</li><li>• Lent £677m to SMEs in deprived areas</li><li>• Reached 450,000 children in 1,400 schools through F2F</li><li>• Extended our support of the Money Advice Trust to 2009, donating a further £2.15m</li></ul>   | <ul style="list-style-type: none"><li>• Launch new FSA endorsed material for F2F in schools and reach 500,000 pupils</li><li>• Develop a dedicated student website with links to the F2F site</li><li>• Offer a further 200 ATMs in rural and deprived areas</li><li>• Open 4 new mobile branches, upgrade 5 existing ones</li><li>• Work with housing associations to trial new model of reaching low-income tenants</li><li>• Launch media partnership with The Daily Mail</li><li>• Offer school banks to 100 inner-city schools</li><li>• Launch a new account for Polish community</li></ul>  |
| <div>Employee practices</div>                | <ul style="list-style-type: none"><li>• Outperformed our global peers on all 15 categories of our Employee Opinion Survey</li><li>• Introduced Foster Leave to our YourTime policies</li><li>• Talent Watch was introduced to identify, develop and mobilise talent</li><li>• Put 1,400 senior managers through our Business School</li><li>• Ran 1,849 'Work-Out' events involving around 25,000 employees</li><li>• Won a gold award for diversity from Business in the Community's Opportunity Now and Race for Opportunity</li><li>• Received a 'leading the way' award for excellence in disability management</li><li>• Introduced the Executive Leadership Programme in the RBS Business School</li><li>• Introduced 'Make a Difference' – a new diversity awareness training programme</li><li>• Using Work-Out, sought the views of disabled employees about their needs, to include in workplace improvement programmes</li><li>• Introduced Human Capital Strategy in N America</li><li>• Used the Human Capital Toolkit to identify specific opportunities to increase customer satisfaction</li></ul> | <ul style="list-style-type: none"><li>• Refine EOS to one global question set. Increase online coverage worldwide by 31%</li><li>• Analyse and understand global variations in EOS results</li><li>• Use the leadership index and tools developed to support and measure management effectiveness</li><li>• Implement and benchmark our award winning diversity best practice policies across Europe, Asia and the Middle East</li><li>• Extend diversity training to all employees</li><li>• Extend our successful European flexible benefits (RBSelect) to our businesses in North America and the Far East</li><li>• Develop a global health, safety and wellbeing policy and management framework built on core principles and supported by policies, standards and guidance</li></ul> |



| Issue  | Progress in 2006  | Priorities in 2007  |
|--|---|---|
| <div>The environment</div> <div></div>                        | <ul style="list-style-type: none"><li>• 74% of UK and Ireland electricity purchased from renewable sources</li><li>• Carbon footprint in the UK and Ireland reduced by 210,000 tonnes of CO<sub>2</sub></li><li>• Recycled paper for office use in the UK and Ireland</li><li>• Printing and mailing facilities achieved ISO14001 certification</li><li>• Short-listed for Building Magazine Sustainable Development Award</li><li>• Extended coverage of our Environmental Management Systems to property occupied by 96% of our employees</li></ul> | <ul style="list-style-type: none"><li>• Extend purchase of green electricity</li><li>• Implement first phase of £55m investment in energy reduction measures in our property portfolio</li><li>• Increase environmental good practice in the workplace</li><li>• Pilot range of emerging technologies including solar roof tiles, biomass boilers, rainwater collection and recycling, roof-mounted wind turbines and ground source heat pumps</li><li>• Extend energy efficiency programme to USA</li></ul>  |
| <div>Project Finance / Equator Principles</div> <div></div> | <ul style="list-style-type: none"><li>• Adopted revised Equator Principles</li><li>• Sustainable Development team established</li><li>• Developed and delivered a training programme to support implementation process</li><li>• Largest lender to renewable projects in the UK</li><li>• Lead arranger of finance for renewables globally, with \$2.6 billion committed</li></ul>  | <ul style="list-style-type: none"><li>• Revise the implementation and procedures manual to reflect Equator Principles II</li><li>• Prepare technical training module on Equator Principles II and deliver training module to relevant personnel</li><li>• Revise awareness training module and deliver to relevant personnel</li><li>• Supplement training by developing an e-learning module</li><li>• Ensure successful transition to individual deal teams categorising projects, prior to submission centrally</li><li>• Increase transparency and disclosure of Equator Principles II implementation</li></ul> |

| Issue  | Progress in 2006  | Priorities in 2007   |
|--|---|--|
| <div>Supporting SMEs and entrepreneurialism</div> <div></div> | <ul style="list-style-type: none"><li>• Increased lending in deprived areas to £677m in the UK</li><li>• Citizens launched a new pilot loans programme for small businesses in low-income and ethnic minority areas</li><li>• Added more than 500 business relationship managers into front-line positions</li><li>• Supported social and youth enterprise through grants and awards</li></ul>  | <ul style="list-style-type: none"><li>• Continue roll-out of the improvement programme, including further representation across our branch network</li><li>• Invest in employee development, marketing, and auto-approval technology to allow quicker decision making</li><li>• Further investment in training so that our teams better understand the small business environment and the operations of the small business customer</li><li>• Develop product offering</li></ul> |
| <div>Community investment</div> <div></div>                 | <ul style="list-style-type: none"><li>• Invested £58.6m in the community</li><li>• Over 25,000 employees took part in employee giving programmes</li><li>• 450 schools benefited from Supergrounds programme since inception</li><li>• 860 employees volunteered with the Prince's Trust</li><li>• Launched YouthBank in Ireland</li><li>• Sustained high score in the Global High Performing Norm score for the EOS question 'Is RBS group socially responsible in the community?'</li></ul> | <ul style="list-style-type: none"><li>• Create communication plan to improve awareness of programmes</li><li>• Extend the community giving programmes overseas</li><li>• Expand the Supergrounds programme</li><li>• Develop a 'Supergrounds vouchers for schools' pilot linked to ATMs</li><li>• Enhance existing employee volunteering partnerships</li></ul>  |

GRI Topic Index

This Corporate Responsibility Report provides an overview of our activity with reference to key issues. Additional information on our corporate responsibility activities and management can be found online and in our Annual Report. This index summarises all the areas we cover and their location. It also shows the location of the GRI indicators we report on. A full GRI index can be found online at [www.rbs.com/cr](http://www.rbs.com/cr).

| Topic  | CR Report<br>(page reference) | Web | Annual Report<br>(page reference) | GRI indicators        |
|--|-------------------------------|-----|-----------------------------------|-----------------------|
| Our business and our approach to CR                                |                               |     |                                   |                       |
| Group profile  | 4, 5                          |     | 8, 9                              | 2.1-2.10, EC1         |
| Reporting  | inside cover                  | ✓   |                                   | 3.1 - 3.9, 3.12, 3.13 |
| Corporate governance   |                               | ✓   |                                   | 4.1-4.7, EDMA         |
| CR management  |                               | ✓   |                                   | EDMA, SDMAs, 4.8, 4.9 |
| Stakeholder engagement   | 6, 7                          |     | 39                                | 4.15-4.17             |
| Lending practices  |                               |     |                                   |                       |
| Lending decisions (data sharing, credit limits)                    | 9, 10, 11                     |     |                                   | PR1                   |
| Lending to businesses  | 36, 37                        |     |                                   |                       |
| Encouraging entrepreneurialism                                     | 36, 37                        |     |                                   |                       |
| Lending to lower socio-economic groups                             | 20, 21                        |     |                                   |                       |
| Selling and marketing  |                               |     |                                   |                       |
| Overview   | 9                             | ✓   |                                   | SDMA (PR)             |
| Fairness and accuracy of all marketing and promotional claims      | 9, 11                         | ✓   |                                   | PR3, PR6              |
| Transparency and accessibility of information                      | 9, 11                         | ✓   |                                   | PR3, PR6              |
| Data privacy   | 17                            | ✓   |                                   | PR7                   |
| PPI  | 11                            |     |                                   |                       |
| Rates and charges  | 11                            |     |                                   |                       |
| Customer service   |                               |     |                                   |                       |
| Ease of access   | 13, 15                        |     |                                   |                       |
| Customer satisfaction  | 13                            |     |                                   | PR5                   |
| Use of feedback  | 13, 14, 15                    |     |                                   |                       |
| Financial crime and corruption                                     |                               |     |                                   |                       |
| Overview of performance  | 16                            |     |                                   |                       |
| External protection<br>(customers, ATMs, online transactions, POS) | 17                            |     |                                   |                       |
| Internal protection (internal fraud, information security)         | 17                            |     |                                   | SO2, SO3              |

| Topic   | CR Report<br>(page reference) | Web | Annual Report<br>(page reference) | GRI indicators                         |
|---|-------------------------------|-----|-----------------------------------|--|
| Financial inclusion and capability                  |                               |     |                                   |  |
| Access  | 19                            |     |                                   |  |
| Basic bank accounts                                 | 20                            |     |                                   |  |
| Free-to-use ATMs                                    | 20                            |     |                                   |  |
| Employees   |                               |     |                                   |  |
| Management  |                               | ✓   |                                   | SDMA (LP)                              |
| Workforce composition                               | 23                            |     | 8, 9                              | LA1                                    |
| The employment relationship (conduct and work life) | 23                            | ✓   |                                   | SO2, SO3, SO4, SO5                     |
| Diversity and inclusion                             | 25                            | ✓   |                                   | LA13                                   |
| Employee satisfaction                               | 24                            |     | 7                                 |  |
| Training and development                            | 24                            |     |                                   | LA11                                   |
| Health, safety and wellbeing                        | 26                            | ✓   |                                   | LA7, LA8                               |
| Rewards and remuneration                            | 26                            |     | 56-57, 143                        | LA3                                    |
| Environmental impact                                |                               |     |                                   |  |
| Environmental management                            | 29                            | ✓   |                                   | ENDMA                                  |
| Environmental policies                              |                               | ✓   |                                   | EN18                                   |
| Data summary  | 30, 31                        | ✓   |                                   | EN1-7, EN14, EN16-18, EN21, EN22, EN29 |
| Approach  | 29                            | ✓   |                                   | SDMA (S)                               |
| Investment  | 29, 30                        | ✓   |                                   | EC8                                    |
| Community Investment                                |                               |     |                                   |  |
| Approach  | 38                            | ✓   |                                   | SDMA (S)                               |
| Investment  | 38, 39                        | ✓   |                                   | EC8                                    |



|   |  |  |
|---|--|--|
| <p><b>We have been engaged by the Board of Directors to perform limited assurance* procedures on The Royal Bank of Scotland Group Plc ('RBS') Corporate Responsibility Report 2006 ('The CR Report').</b></p> <p><b>Our Conclusions</b></p> <p>In our opinion, based solely on the work described in this Report, we are not aware of anything that causes us to believe that the management assertions in relation to the subject matters set out below are materially misstated.</p> <p><b>Scope of assurance work</b></p> <p>The subject matters selected for this assurance engagement are the following:</p> <p>1. <b>The stakeholder qualitative research undertaken during 2006 and its outcome</b></p> <p>Our assurance procedures consisted of understanding and testing, on a sample basis, the processes undertaken by the RBS CR team to identify, engage and report the issues raised by various stakeholder groups during 2006 as described in the 'Stakeholder Research and Identification of Key Issues' section on page 6.</p>   |  |  |
| <p>2. The process undertaken by the Group CR team to compile the Corporate Responsibility Report</p> <p>Our assurance procedures consisted of understanding and testing, on a sample basis, the processes undertaken by the RBS CR team to collate, validate and report RBS CR practices and performance as described in the 'About this Report' section on the inside cover.</p> <p>3. <b>Specific Corporate Responsibility performance data and underlying systems</b></p> <p>For each of the following selected performance data, our assurance procedures consisted of understanding, analysing and testing, on a sample basis, the process undertaken by RBS to collate, aggregate, validate and report them.</p> <p>3.1 <b>Our Employees</b></p> <ul style="list-style-type: none"><li>• The annual Employee Opinion Survey results – global coverage</li><li>• Employee absence rates (percentage) – global coverage</li><li>• Employee voluntary turnover (percentage) – global coverage</li><li>• Employee diversity (gender profile, age profile, ethnic profile) – global coverage excluding ethnic profile which is UK only</li><li>• Total number of reportable accidents and injury rate (injury rate per 100,000 employees against the UK national sector average) – UK and Ireland coverage</li></ul> <p>See the 'Employee Practices' section on page 22.</p> |  |  |
| <p>3.2 <b>Environment</b></p> <ul style="list-style-type: none"><li>• Total property based energy consumption (GWh) – UK &amp; Ireland coverage</li><li>• CO<sub>2</sub> emissions from property based energy use (tonnes and tonnes per FTE) – UK &amp; Ireland coverage</li><li>• Renewable electricity (% of total property based energy consumption and % relative to total electricity consumption) – UK and Ireland coverage</li><li>• Business travel (million km) – UK &amp; Ireland coverage</li><li>• Total business travel-related CO<sub>2</sub> emissions (tonnes and tonnes per FTE) – UK &amp; Ireland coverage</li><li>• Waste management (paper recycled in tonnes, furniture recycled in tonnes, IT equipment – reused and recycled in number of items) – UK &amp; Ireland coverage</li><li>• Consumables – paper usage (tonnes) – UK &amp; Ireland coverage</li></ul> <p>See 'The Environment' section on page 28.</p> <p>3.3 <b>Community</b></p> <ul style="list-style-type: none"><li>• Total community investment spend (£) (comprising cash donations, gifts in kind, management costs and employees' time) – global coverage</li></ul> <p>See the 'Community Investment' section on page 38.</p>   |  |  |

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| <p><b>Assurance standard and procedures</b></p> <ul style="list-style-type: none"><li>• We conducted our assurance work in accordance with the International Standard on Assurance Engagements 3000 (ISAE 3000) issued by the International Auditing and Assurance Standards Board (for further information see <a href="http://www.ifac.org/IAASB">www.ifac.org/IAASB</a>).</li><li>• This standard requires that we review the systems, processes and controls that deliver the information in the areas of the Report specified above. Our work consisted primarily of making inquiries of company personnel and carrying out analytical procedures and sample tests as follows:<ul style="list-style-type: none"><li>– the collation, aggregation, validation and reporting of the selected processes and performance data; and</li><li>– the content of the Report against the findings of our work, industry Corporate Responsibility practices and other relevant information and, as necessary, making recommendations for improvement.</li></ul></li><li>• A limited assurance engagement is primarily limited to inquiries of company personnel and analytical procedures together with tests, on a sample basis, of the operation of processes and is substantially less in scope than a reasonable assurance* engagement. Accordingly we do not provide reasonable assurance on those matters specified in this Report.</li></ul> |  |  |
| <p><b>Responsibilities of directors and independent assurance provider</b></p> <ul style="list-style-type: none"><li>• The Directors are responsible for the preparation of the CR Report and for the information and statements contained within it. They are responsible for establishing and maintaining appropriate performance management and internal control systems from which the reported information is derived.</li><li>• Our responsibility is to independently express a conclusion on the reliability of management's assertions in the areas identified above.</li><li>• This report is made solely to RBS in accordance with our engagement letter for the purpose of the Directors' governance and stewardship. Our work has been undertaken so that we might state to the company those matters we are required to state to them in a limited assurance report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than RBS for our work, for this Report or for the conclusions we have formed.</li></ul> <p>Deloitte &amp; Touche LLP<br/>Edinburgh, United Kingdom<br/>27 June 2007</p>   |  |  |
| <p>* The different types of assurance engagement are defined in the International Standards on Assurance Engagements 3000 (ISAE 3000) issued by the International Auditing and Assurance Standards Board. Reasonable assurance is similar to the audit of financial statements; limited assurance is similar to the review of a six-monthly interim financial report.</p>   |  |  |

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If you would like a Braille or audio version of the CR Report, please contact us at the above address.

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